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Study of Policy Guidance Provided for US Military Government in Germany, WWII (U)

Part II

Prepared by

GOVERNMENTAL AFFAIRS INSTITUTE
1702 H. J. ...
... Avenue, N. W.
... on 6, D. C.
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Part II

Prepared by

GOVERNMENTAL AFFAIRS INSTITUTE
1785 Massachusetts Avenue, N. W.
Washington 6, D. C.
31 May 1954

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Leon Lipson



OPERATIONS RESEARCH OFFICE
The Johns Hopkins University Bethesda, Maryland

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THE FIRST RECONSIDERATION OF OCCUPATION POLICY

The Reopening of Basic Policy Questions

The last three months of 1945 were a time of reconsideration of basic occupation policies, both in Washington and in the theater. It was a moot question whether guidance suitable to the actual situation in Germany could be fitted into the framework of JCS 1067/6 or whether outright modification would be necessary. This uncertainty led to the postponement of policy decisions. For example, the Joint Chiefs of Staff cabled the theater on 6 September 1945:

"... The problems of reparations and restitution are now under consideration by State Department as a matter of urgency. US policy on exports from Germany is involved in the whole question of restitution and reparation."^{1/}

Steps looking toward the revision of basic occupation policies were taken both in Washington and in the theater. On 30 August, 1945, President Truman requested Byron Price to go to Germany to survey "the general subject of relations between the American Forces of Occupation and the German people." Since these relations were, of course, in large part a result of the policies pursued by Military Government, the Byron Price mission developed into a general review of policy. Previous policy conflicts had caused some military government officers to feel that policies were made in Washington and had to be

^{1/} Paraphrase of cable from JCS to CG USFET for Eisenhower, WD CM OUT 60613 of Sept 6, 1945, CAD Numerical File, RG-122, DRB. SECRET

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accepted. Since Price was quite ready to listen to reasonable criticism, however, his conversations with military government officers in the field encouraged the idea that policy could and should be changed when necessary.

The OMGUS Standard of Living Report

One of the first responses to the gradual change of climate was a staff study of industrial disarmament prepared by the Industry Division of OMGUS, a draft of which was circulated in theater headquarters and also sent to Washington on 6 October, 1945. While the study carried the caveat "preliminary draft, not adopted as official," it was nevertheless a clear indication of the thinking of leading OMGUS technical personnel.

The 6 October 1945 staff study began by pointing out that the level of industry for Western Germany could not be determined without the facts on the Soviet Zone. A Germany administered as four separate zones was in no sense an "economic unit". While the Potsdam Protocol could be construed to reduce the German standard of living to that of other countries, it could also be interpreted as demanding the advance of other countries to the high German standard. In any case, the prosperity of Europe depended on a certain level of economic activity in Germany. Specifically, the staff study concluded that:

- (a) Germany's direct facilities to make war had already been destroyed by the elimination of the German Armed Forces, confiscation of foreign holdings, dismantling of war industries as well as loss of territory and resulting dependency on food imports;

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- (b) Germany's industrial potential to make war could be effectively eliminated by a few specific controls and limitations;
- (c) A rapid rehabilitation of German industry and economy was essential to the well-being of neighboring nations and to political and economic stability in Europe as a whole; and
- (d) a dependent and economically unstable Germany was a source of political unrest and a constant threat to peace in Europe.

The staff study then recommended that in deciding whether a plant should be declared available for reparations, the main question should be whether it was needed for peaceful civilian production (including construction and exports) rather than whether it might be diverted to war production at some future date. Potsdam should be construed so as to offer Germany an incentive to cooperate with her neighbors in raising the standard of living in Europe as a whole. Beyond the mandatory provisions specified in the Potsdam Declaration, only magnesium production should be prohibited and limitations should be confined to ingot steel, machine tools and stockpiling of strategic materials. Aside from these limitations, which should be enforced by the simplest possible controls, German industrial production and international trade should be encouraged, so as to establish a tolerable standard of living in Germany and the rest of Europe and to promote political and economic stability and peace. 1/

✓ Staff study on industrial disarmament by Industry Division, OMGUS, 6 October 1945 WDSGA Decima! File 014 Germany, DRB. CONFIDENTIAL

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In the meantime, the German Standard of Living Board created within OMGUS by General Clay and headed by Calvin Hoover had drafted a preliminary report entitled "German Standard of Living in Relation to Industrial Disarmament and Reparations". This report proceeded from the Potsdam formulation providing for Allied controls to assure a German standard of living "... not exceeding the average of standards of living in European countries (excluding the UK and USSR)." Using this criterion and certain working assumptions,^{1/} the report recommended a standard of living equivalent to that which had existed in Germany in 1932. This level approximated 74% of the European average for the period 1930-1938, including depression as well as recovery years. Germany would produce quantitatively as much goods as were produced in 1938, but there would be a shift away from heavy and toward consumer industries. The report concluded that it would be difficult, if not impossible, to carry out a "severe program of industrial disarmament" while providing a minimum German standard of living and the costs of the occupation. How far the standard of living was to be sacrificed to allow for necessary industrial disarmament was a high policy decision that the report did not undertake to make.^{2/}

^{1/} These assumptions were that it would take two or three years to reach the standard of living cited in the Potsdam Protocol, that the occupying powers would agree to leave sufficient industrial capital for each zone to contribute proportionately to a minimum German standard of living, that there would be no losses of territory other than the areas ceded to Poland and that the remainder of Germany would have a population of 70,000,000, that no reparations would be paid out of current production, and that no allowance was made for lowered efficiency of the German economy due to division into zones, restrictions imposed by the Allies, inflationary dangers, or other financial difficulties.

^{2/} Brief of draft preliminary report by the working staff of the German Standard of Living Board - subject: German Standard of Living in Relation to Industrial Disarmament and Reparations, Tab "B" of staff study from CAD (signed by General Hilldring) to Secretary of War through Deputy Chief of Staff, 9 Oct, 1945, WDSCA Decimal File 014 Germany, DRB.

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While the weight of opinion in the economic branches of Military Government had already swung definitely in favor of rehabilitation by the fall of 1945, General Clay approached the question with more caution. On 26 September he cabled to General Hilldring as follows:

"Draper has received letter from Hoover that he has been discussing reparations with various government officials in Washington. While I have no objection to these discussions I would like to point out the following:

"I respect Hoover very much and he has made a valuable contribution to our work. However, his standard of living study has not yet been coordinated with study of industry now under way. It is being used by us only as a basis of discussion both internally and in quadripartite discussions.

"Hoover abhors destruction and his personal views are towards leniency. I want you to understand so that you may advise others, if it becomes necessary, that his views reflect his personal studies but not necessarily represent our official views over here."

In a staff study on the Hoover Report, the Civil Affairs Division stated that:

"It is not the view of this Division that the Berlin Protocol was intended to assure any given standard of living in Germany."

While the Protocol contemplated leaving facilities to support a minimum standard, the study continued, actual economic revival depended mainly on availability of fuel, raw materials and transportation. Admittedly, removal of reparations and industrial disarmament would result in a German deficit that must be met by relief imports. Payment of such essential imports would have to be made through increased "peaceful" production or by Congressional

1/ Cable CE-16741, USGCC to WARCAD personal for Hilldring signed Clay, 26 September, 1945, CAD numerical file, DRB.

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appropriations, or both. It was not US policy to hold up reparations removal pending final agreement on the future economic structure of Germany.^{1/}

However tentative, the Hoover report nevertheless aroused the criticism of those who insisted on the primacy of industrial disarmament. In a New York Times story on 8 October, 1945, Raymond Daniell commented that the Report's view of "the unworkability of the Potsdam Agreement on Industrial Disarmament and Reparations" had aroused Soviet suspicions. Shortly thereafter, the Czechoslovak National Council of America sent a telegram denouncing the Hoover Report as a "trial balloon" toward re-establishment of a strong Germany and urging speedy industrial disarmament. The reaction of the Civil Affairs Division was an appeal to orthodoxy. Incident to the Daniell dispatch, CAD commented that the Hoover Report might well have given rise to Russian suspicions of a change in US Policy but that "there is no known desire on the part of any responsible government agency in Washington to depart either from the spirit or the letter of the Berlin Protocol."^{2/}

Clarification of Policy is Sought Through SWNCC

Whether or not basic policy changes were actually impending, it was clear that existing directives were highly ambiguous. The War Department therefore prepared a staff study outlining the points at issue. This paper, entitled "Analysis of Certain Economic Problems Confronting Military Occupation Authorities in

^{1/} Staff study commenting on preliminary report by the working staff of the German Standard of Living Board (Calvin Hoover Report), from CAD (signed by Gen Hilldring) to Secretary of War through Deputy Chief of Staff, 9 Oct 1945, WDSCA 014. Germany, DRB. It will be noted that CAD's view was in apparent conflict with the State Department's instructions to the US representative on the Reparations Commission, designed to avoid US financial contributions to the German economy; see pWI-42, Supra.

^{2/} Staff study of 9 Oct 1945 as cited in note 1 above.

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Germany," was introduced in the State-War-Navy Coordinating Committee on 19 October 1945 as SWNCC 210.

SWNCC 210 began by reviewing the economic provisions of the Potsdam Protocol, especially those concerned with disarmament and demilitarization, reparations, the German standard of living and the metamorphosis to peaceful industries. It then indicated that certain sections JCS 1067/6 not clearly superseded by the Potsdam Protocol were still in effect, particularly the following:

"Except as may be necessary to carry out these objectives, you will take no steps (a) looking toward the economic rehabilitation of Germany, or (b) designed to maintain or strengthen the German economy." (Part II, Paragraph 16)

"... Controls upon the German economy may be imposed to the extent ... necessary to achieve (your objectives) and ... to protect the safety and meet the needs of the occupying forces and assure the production and maintenance of goods and services required to prevent starvation or such disease and unrest as would endanger these forces." (Part I, Paragraph 2)

"Pending final Allied agreements on reparations and on control or elimination of German industries that can be utilized for war production, the Control Council should ... prohibit and prevent production of iron and steel, chemicals, nonferrous metals (excluding aluminum and magnesium), machine tools, radio and electrical equipment, automotive vehicles, heavy machinery, and important parts thereof, except ..." (for objectives now replaced by those agreed in the Berlin Protocol). (Part V, Paragraph 32)1/

The "Discussion" section of SWNCC 210 began by stating the three objectives of Allied policy under the Potsdam Protocol:

- "(a) to disarm Germany economically and demilitarize her;
- (b) to exact from Germany a proper amount and character of reparations within a fixed period of time;

1/ Condensation of citation in SWNCC 210, pages 8-9.

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- (c) to accomplish a and b in a way which will permit Germany ultimately to sustain a peace economy without external assistance."

The principal problems to be solved were:

- "(a) in implementing programs for reparations and industrial disarmament, what criterion is to measure the industrial plant capacity to be left to Germany; and
- (b) to what extent is it the policy of this government that the Military Government authorities take affirmative action with respect to the operation of the German economy.^{1/}

To execute the reparations program within the time limit set by Potsdam, a prompt decision was necessary on the future German level of industry. Complete elimination of German heavy industry and specialized production having a war-making potential would make it impossible for Germany to farm effectively or meet the raw material needs of her neighbors without extensive imports for which Germany could not pay. Both JCS 1067 and the Potsdam Protocol left room for disagreement in dealing with the problem. Although SWNCC 210 interpreted the standard of living stated in the Protocol as a permissible maximum rather than a guaranteed minimum, it was still necessary to define it.

Taken together, SWNCC 210 concluded, JCS 1067/6 and the Potsdam Protocol failed to indicate how much Military Government should do to promote positively German economic recovery. While, strictly speaking, positive steps were limited to maximizing the production of food and coal and meeting certain other basic requirements, the directives ignored the fact that food and coal were dependent

^{1/} Ibid, page 10

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on economic activity in general. The dilemma was sharpened by the current coal directive, which ordered exports of more coal than Germany could produce. The paper then raised the question "whether the economic recovery of Europe as a whole would be accelerated by use of a larger proportion of German coal output in Germany."

SWNGC 210 contained only questions with no suggestions or answers. Its recommendation was that the Department of State should be requested to provide "clarification of the US position" for the guidance of Military Government on the following questions:

- a. Level of balanced German peace economy to be taken as measure of industrial plant to be left to Germany after implementation reparations and industrial disarmament programs;
- b. Criteria by which level such peace economy is to be determined;
- c. Whether desired level peace economy is to be measured by average living standards of European Countries and if so criteria for determining such standards of living;
- d. Whether United States policy continues to be that affirmative action mil gov authorities in operation of German economy be limited to repair of transport, emergency repair housing and essential utilities, maximizing coal and agricultural production and imposition of certain economic controls;
- e. Extent to which mil gov should take affirmative steps to rehabilitate German economy with particular ref to relation of German economy to that of Europe as a whole, ceiling above which mil gov authorities should not assist German economy, particular types of assistance mil gov should render German economy, and extent to which United States will assume responsibility for provision of imports to support German economy;

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- f. Whether in determining desired level of German peace economy, provision must be made for resources to enable Germany to provide foreign exchange to pay for occupation costs.^{1/}

An authoritative policy statement on these questions was desired from the President or the Secretary of State. If definitive guidance could not be provided immediately, either the President or the Secretary of State should advise Congress and the public of "the existence of the problems herein discussed and of the factors bearing upon their solution."^{2/}

Early in November 1945 General Clay came to Washington. His main purpose was to explain the critical German food situation and to urge maximum allocations for the starving German population. There were, however, conferences on other policy questions including, in particular, a meeting at the Department of State on 3 November which dealt with the possible internationalization of the Ruhr and Rhineland, central German agencies, reparations and other subjects. On 5 November State Department officials discussed with General Clay their draft of an answer to SWNCC 210. These meetings did not, however, result in any major policy commitments or statements.

The Byron Price Report

On 9 November 1945 Byron Price submitted his report to the President. Following a descriptive section dealing mainly with economic troubles and the difficulties of indoctrinating the Germans with desired attitudes, the

^{1/} As summarized from SWNCC 210 in Cable War 87680 from WARCAD to OMGUS, 7 Dec. 1945, CAD Numerical File, DRB. RESTRICTED (downgraded from C)

^{2/} SWNCC 210, "Analysis of Certain Economic problems Confronting Military Occupation Authorities in Germany," 19 October 1945, CAD files, RG-122, DRB.

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paper contained six recommendations. Maximum efforts, Price wrote, should be bent to break the deadlock in the Control Council caused by French resistance to German central agencies. The changeover of Military Government from Army to civilian control should take place on 1 June 1946 at the earliest, the intervening time being used for recruitment of the highest quality personnel. Major attention was required by the food situation: Mr Price urged an increase from 1550 to 2000 calories per day. "A ration adequate to prevent starvation would not mean being soft with the German people," he stated. Military Government should be given greater leeway in deciding when and how to denazify essential services and the control of German information media should be loosened to provide freedom of opinion. American propaganda should stop sermonizing on German guilt and emphasize reconstruction.

Mr. Price urged in his report the general revision of JCS 1067/6 which, he said, had been drafted without any knowledge of actual occupation conditions. Its long and detailed provisions were difficult to apply in the field. The directive and its various appendices, which Price totaled at 72 pages, "could profitably be rewritten into a few hundred words of general principles."^{1/}

The Civil Affairs Division prepared a set of recommendations on the Price proposals, which were discussed by the Secretary of War with the Secretaries of State and Navy on 4 December 1945. The Department of State was urged to press for French agreement to central German agencies without prejudicing the eventual German western boundary. The War Department agreed to civilianization of military government and suggested that the State Department negotiate the necessary revision of the Agreement on Control Machinery for Germany. Noting that

^{1/} Memorandum from Byron Price to the President, 9 November 1945, released by White House 28 November 1945, Bureau of Budget Library.

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General Clay agreed with Price on the inadequacy of the 1550-calorie food ration and that the Quartermaster General was already planning for increased food shipments, the paper stated that decision of the standard of living, including food intake, was "one of policy and ... not for the War Department to make." It was recommended that the Secretary of State decide whether the German food level should be increased. The Civil Affairs Division also agreed with Price's recommendation on control of information media but considered that recommendations from the theater on denazification should be awaited.^{1/}

OMGUS Views on the Revision of JCS 1067/6

Referring to Price's recommendation for revising basic policy directives, Gen Hilldring cabled on 1 December 1945, requesting "imperatively" theater views on the need for changes in JCS 1067/6. Recommendations for changes or rescission of documents on subjects covered elsewhere were invited. To this, Gen Clay answered in full:

"Reference your W86385 do not understand what Byron Price has in mind. On the whole JCS 1067 as modified by Potsdam has proved workable. Much of JCS 1067 has been enacted into Control Council laws and directives. Here any changes would be confusing except as we necessarily deviated from JCS 1067 to obtain quadripartite agreement. It would be helpful probably to delete from JCS 1067 those matters covered by Potsdam and by Control Council actions substituting or referring to these actions. Some details require clarification or amplification and a report covering these details will be furnished in about 1 week. I don't know how we could have effectively set up our mil gov without JCS 1067." ^{2/}

^{1/} Memorandum from General Hilldring to the Secretary of War, 3 December 1945, Subject: Recommendations of Byron Price Report on Germany, WDOSA Dec. File 091 Germany, DRB.

^{2/} Cable, WAR 86385, WD to OMGUS personal for Clay from Hilldring, CONFIDENTIAL; CC 19760, from OMGUS to War Department, RESTRICTED CAD Numerical File, DRB.

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Within OMGUS, each division was requested to recommend changes in the paragraphs of JCS 1067 for which they were responsible. Such proposals were to be based on experience in Germany, the Potsdam Agreement and action taken by the Allied Control Authority. After the views of OMGUS divisions had been compiled, Gen Clay cabled on 10 December his preference for amendment rather than complete rewriting of JCS 1067/6. It was not desired, however, that the directive be expanded to include interpretations, since this would destroy its flexibility. Rather than drastic changes in the directive, what was needed was support for the interpretation of the Potsdam Protocol developed in the theater. The most recent interpretation of Potsdam issued by the State Department, Clay added, fulfilled this purpose.

Gen Clay's cable of 10 December recommended twenty specific amendments in JCS 1067/6. It was recommended that paragraph 3c of JCS 1067/6 authorizing central German agencies be revised to encourage establishment of a central German government with limited authority at an early date. In the meantime free and unrestricted interzonal travel should be allowed except for security suspects. The provision of paragraph 4b discouraging fraternization with the Germans would be dropped. Paragraph 6c on denazification would have the definition of "more than nominal participants" in the NSDAP deleted so that individual tests could be applied by review tribunals. Mandatory arrests (8b) would be limited to persons active in organizations being tried by the International Military Tribunal and to others against whom there might be definite evidence. Paragraph 16 on control of the German economy should preferably be replaced by section II, paragraphs 11 and 15 of the Potsdam Protocol authorizing controls for both negative and positive purposes. The sentence prohibiting steps toward the economic rehabilitation of Germany or designed to maintain or strengthen the German

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economy should, General Clay indicated, be deleted in any case. Other sections, he indicated, should be amended to conform with the Potsdam Protocol or deleted altogether.^{1/}

The Department of State Reinterprets Economic Policy

In the meantime the Department of State had transmitted to the War Department a paper entitled "Reparations Settlement and the Peace Time Economy of Germany." This paper was in answer to SWNCC 210, which was thereupon withdrawn from the SWNCC agenda. It was cabled to the theater on 7 December 1945.^{2/}

The Department of State's reparations paper pointed out that while the Potsdam Protocol charged the Allied Control Council with eliminating German military production and reducing drastically the capacities of the metallurgical, machinery and chemical industries it did not impose permanent limitations on the German economy. After the initial level of industry had been determined there would be constant review. Final Allied decisions on restriction of German industrial capacity would not be made until the peace settlement. While reparation removals would undoubtedly retard Germany's economic recovery, the United States intended to permit the German people under democratic government to develop their own resources and work toward a higher standard of living, subject only to restrictions designed to prevent armaments production.

It was, nevertheless, in the interest of the United States, the paper continued, to enforce the reparation terms of the Berlin Protocol. This would

^{1/} Cable, CC 20130, from OMGUS signed Clay to WARCAD personal for Hildring, 10 December 1945, CAD Numerical File, RG-122, DRB. CONFIDENTIAL (downgraded from S)
^{2/} Cable, WAR 87680, WD signed WARCAD to OMGUS, 7 December 1945, CAD Numerical File, RG-122, DRB. RESTRICTED (downgraded from C)

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weaken the German economic base for war pending achievement of peaceful democratic government and would assist the recovery of Allied countries. Destruction would be limited to equipment that could be neither moved nor used for permitted production. Non-specialized installations would be destroyed only when parts of integrated complexes were easily convertible to war purposes. Equipment earmarked for reparations should not be withheld to permit more effective peacetime use of remaining installations. Within these limits, however, US reparation and security policies were not aimed at punitive destruction of capital needed for the German peacetime economy.

Calculations of German industrial capacity, the State Department indicated, were to be based on the Reich as it existed in 1937 less territory east of the Oder-Neisse line.

The Department of State did not interpret the Potsdam Protocol as forcing a reduction in German living standards except as needed to enable Germany to meet her reparation payments. The Protocol merely provided that Germany's reparation obligations should not be reduced for the purpose of maintaining a standard of living above the European average. The Department further interpreted the standard-of-living criterion to refer to the years immediately following the two-year period of reparation removals. Germany should be left enough equipment to produce an average European standard of living in 1948, even though administrative and economic difficulties probably would prevent its full utilization. The paper gave suggestions for computing German requirements based on the 1930-38 average standard of living in Europe, adding that the computation should be adjusted to permit repair of war damages and to assure that Germany might exist without external assistance.

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The reparations paper went on to state that the United States had no intention to exploit industrial disarmament for commercial ends by crippling competitive German industries of a peaceful character. Furthermore, the United States should not approve removals that would hamper German exports in sufficient quantities to pay for essential imports. The United States and its Allies could not, of course, guarantee an export-import balance; their responsibility was only to provide reasonable opportunity for a balance at the agreed minimum standard of living. The current need for imports financed by the occupying powers, the paper argued, was due not primarily to reparations removals but rather to the complete dislocation of the German economy incident to Germany's defeat and collapse. Shortages of fuel, food, raw materials and other factors would indeed for some time prevent full use of even the remaining industrial capacity. It was possible, the State Department admitted, that reparation removals would divert transport capacity from constructive purposes, and to that limited extent the United Nations might have to finance more German imports than if no reparations had been taken.

For the next two years, the paper continued, the United States and other occupying powers would have to finance minimum essential German imports not covered by exports. The Potsdam Protocol imposed no obligation on the occupying powers respecting the German standard of living. So far as the United States was concerned, the "disease and unrest" formula still applied. It was, nevertheless, desirable to extend the type and volume of imports into Germany, not only to avoid disease and unrest but also to reactivate German export industries and thus lighten the burden on the occupying powers.

For the immediate future, Military Government should concentrate on the repair of transport, housing and essential utilities and on maximizing coal and

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farm production. Except as needed for these purposes, coal should by priority be exported to liberated countries even though this would limit German industrial production. If the coal crisis in Europe should be surmounted by the spring of 1946, the situation could then be reviewed to see whether more coal could be allocated to German industries, particularly for export. This possibility would depend in part on the success of Military Government in restoring German coal output and transport. Meanwhile Military Government should plan for the selective reactivation of German industry, beginning with plants yielding maximum values for the least coal.

Concerning the role of the occupying authorities in general, the State Department paper had this to say:

"The role of the occupying authorities in the process of German revival should in general be that of providing and setting the conditions within which the Germans themselves assume responsibility for the performance of the German economy. To this end the occupying authorities should devote primary attention in planning revival to the development of German administrative machinery ... and in the application of common policies in transport, agriculture, banking, currency, taxation, etc. As one aspect of this process denazification should be satisfactorily completed during the present period. For the rest, great importance attaches to the conclusion within the Allied Control Council of agreements governing policies to be followed in various aspects of the German economy enumerated, and devising inter-zonal German machinery for their application."^{1/}

The reparations paper was released to the press on 12 December 1945, together with a statement by the Secretary of State pointing out that the Potsdam Declaration involved three stages in the return of Germany to normal economic conditions. During the first stage, lasting from the surrender in May 1945 until at least the end of the winter in 1946, the United States would pursue four immediate objectives:

^{1/} Cable, WAR 87680 of 7 Dec. 1945 as cited in Note 2 page 14 chapter 7

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"First, to increase to the greatest possible extent the export of coal from Germany to liberated areas. The rate of economic recovery in Europe depends upon the coal supplies available over this winter; and it is our intention to maintain the policy of hastening the recovery of liberated areas, even at the cost of delaying recovery in Germany.

"Second, to use the months before spring to set up and to set into motion, in conjunction with our Allies, the machinery necessary to execute the reparations and disarmament programs laid down and agreed at Potsdam ... This calculation, which requires definition of the initial postwar German economy, must be completed before February 2, 1946.

"Third, to set up German administrative agencies which would operate under close policy control of the occupying authorities in the fields of finance, transport, communications, foreign trade, and industry. Such agencies ... must operate if Germany is to be treated as an economic unit and if we are to move forward to German recovery and to the eventual termination of military operation.

"Fourth, to prevent mass starvation in Germany. Throughout Europe there are many areas where the level of diet is at or close to starvation. In terms of world supply and of food shipments from the United States, liberated areas must enjoy a higher priority than Germany throughout this first post-war winter. The United States policy, in collaboration with its Allies, is to see that sufficient food is available in Germany to avoid mass starvation. At the moment the calory level for the normal German consumer has been established at 1,550 per day. This requires substantial imports of foodstuffs into Germany, especially of wheat ... One thousand, five hundred and fifty calories is not sufficient to sustain in health a population over a long period of time, but as a basic level for the normal consumer it should prevent mass starvation in Germany this winter. If a higher level for the normal consumer is judged to be required and if it is justified by food standards in liberated areas, the ration level in Germany may be raised by agreement among the four occupying powers."

In short, the Secretary of State continued, it would be an exceedingly hard winter for Germany, though only slightly more difficult than for certain liberated areas. A softening of American policy on food and coal for Germany would, however, hurt the liberated areas.

In the second stage in German economic policy, for which preparations were under way and which should begin in the spring, it was envisaged that Germany

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would gradually recover. "Simultaneously with the removal of plants under reparation, plants will be earmarked for retention; and as fuel and raw materials become available, German industry which is permitted to remain will be gradually reactivated and the broken transport system revived." Though coal exports would continue, expanded output would permit more coal for the German economy. German industrial production and exports would then increase.

The third stage of economic development would follow the period of reparation removals, which the Potsdam Declaration required to be completed by 2 February 1948. Germany would then have resources sufficient for a standard of living equal to the rest of Europe other than the Soviet Union and the United Kingdom. Limitations thereafter imposed on the German economy should, in the opinion of the US Government, be only to prevent German rearmament and not to restrict the German standard of living.^{1/}

It was apparently the foregoing statement to which General Clay had referred when he voiced approval of the Department of State's interpretation of Potsdam.

THE PRINCIPLE OF UNITY IN OCCUPATION ADMINISTRATION

During the fall of 1945 Gen Clay had several occasions to defend the principle of unified responsibility for United States occupation administration in Germany. That he succeeded is of historical importance. Otherwise, there might have been competing and at times conflicting US agencies operating in Germany, each with its own channel of command and its own policies.

^{1/} Statement on American Economic Policy Toward Germany, Part A, a statement of the Sec of State, released to press 12 Dec 1945, Dept of State Bulletin, Vol. XIII (1945), pp. 960 ff.

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The first episode, mentioned briefly in Chapter 3, involved the relations between OMGUS and the US representative on the Reparations Commission. While Gen Clay had enjoyed a satisfactory understanding with Ambassador Pauley, a potential jurisdictional conflict arose in connection with the appointment of his successor. In late October 1945 the Secretary of State wrote to the new representative, Mr. Angell:

"It is the United States' view, although no international agreements exist on the point, that the plan for removals of industrial equipment formulated by the Allied Control Council should be submitted to the Allied Commission on Reparations in order that it may judge how closely the plan conforms to the policies established by the Allied Commission on Reparations. In order that a consistent United States position may be maintained on the Allied Control Council and the Allied Commission on Reparations, it will be your responsibility to review from the policy standpoint for the Department of State any American proposals for removals to be made to the Allied Control Council, and to report to me in the event you are in disagreement therewith. The United States Member of the Allied Control Council will be requested to work closely with you so as to enable you to fulfill this responsibility."^{1/}

General Clay stated that he would not concur with the division of authority. The government should make a clear-cut decision whether OMGUS or the US representative on the Reparations Commission should determine the amount and character of reparations removals. The result was that Angell's letter of appointment was revised, in consultation with the Civil Affairs Division of the War Department, so as to leave the authority of Military Government over reparations questions unimpaired.

^{1/} Minutes of Meeting at State Department, 3 Nov. 1945, Subject: Current Questions in the Military Government of Germany. Participants: State Department (Messrs. Clayton, Thorpe, Matthews, Rubin, Riddleberger, Kindelberger and deWilde), Office of Military Government (General Clay, Ambassador Murphy), War Department (General Hilldring, Lt. Colonel Gross), CAD Decimal File 014 Germany, RG-122, DRB

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On pages 56-58 of Decision in Germany, Gen Clay describes the steps taken in November 1945 to clarify relations with the War and State Departments. As he explained in his cable of 17 November, from which he quotes extensively, Military Government was willing to receive instructions from either War or State. Such instructions should preferably be sent through a single channel, the War Department, or else direct. Gen Clay objected, however, to having instructions come through the Political Advisor, who was the Department of State's representative at theater headquarters.

"As a result," Gen Clay writes, "it was arranged that instructions should always be sent through the War Department and that State Department messages to the Political Advisor were to be considered as suggestions. Throughout the occupation we received many of these suggestions which were accepted in large part. When they were not, Murphy was free if he thought it important enough, to advise the State Department so that those rejected could be repeated as instructions." ^{1/}

The relationship of USPOLAD to OMGUS, thus temporarily settled, did not last. It was difficult for Ambassador Murphy's staff to resist the temptation to enter into operations, particularly since their British and French "opposites" had recognized operative functions. Poor liaison between the Departments of State and War/Army in Washington resulted in friction between their respective representatives in the theater. As a result, the USPOLAD-OMGUS relationship degenerated into a polite feud, to which we shall have occasion to advert in the next chapter. ^{2/}

^{1/} Decision 57

^{2/} See Chapter 4, "Problems of State-Army-OMGUS Liaison".

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Gen Clay's third occasion to defend the unity of occupation administration involved the proposal, late in 1945, to establish in the theater an organization, independent of Military Government, to handle investigations of technical intelligence. Gen Clay cabled that if such an agency were established, he would discontinue the Field Intelligence Agency, Technical (FIAT), the branch of OMGUS currently handling such investigations. Furthermore, the new agency would need its own independent facilities for housekeeping, transportation, and general care, since logistic support from the occupation forces would not be forthcoming. Since, under conditions in Germany in late 1945, it was impossible for Americans to exist there without Army food, billets and transportation, the question was effectively settled.^{1/}

In later instances in which technical missions of other departments were sent to the theater on specialized assignments, it was agreed that they should be under the supervision of the theater commander, who would have final authority over all their activities in Germany.^{2/}

TRANSFER OF DENAZIFICATION TO THE GERMANS

Development of a German Denazification Law

The denazification program operated by Military Government under the theater directives and Law No. 8 satisfied nobody. Some critics, such as Byron Price,

^{1/} This episode is also mentioned briefly in Chapter 3, "Military Government Relationships with Other Agencies in Theater".

^{2/} Cable from OMGUS to War Department, AGWAR to WARCAD personal for Hildring, CC 20113, 10 Dec 1945, CAD Numerical File, RG-122, DRB. SECRET

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felt that it went too fast and too far, which others such as Russell Nixon wrote incensed memoranda complaining that not enough people were being arrested.^{1/}

Similar complaints were being echoed in the American press and in the mail flowing into the War Department, much of which was forwarded by members of Congress. The varying opinions tended, however, to offset each other, and Washington did not undertake to state denazification policies beyond what already stood in JCS 1067/6 and the Potsdam Protocol. The transfer of denazification to the Germans was a clear case of occupation policy developed in the theater. Only at a later stage in the denazification program did Washington participate more actively in policy decisions.

On 30 November 1945 OMGUS issued orders appointing a Denazification Policy Board to "formulate a complete over-all program for denazification, providing for placing as much responsibility as possible on German officials." The Board reviewed denazification operations to date, including the by then voluminous laws and directives. In developing a long-term program to replace the interim operations conducted by Military Government, it sought to correct deficiencies such as arbitrary treatment of "small fry," failure to reach active Nazis not falling within enumerated categories and lack of German participation and therefore of German support. The Committee recommended a plan whereby denazification would be administered entirely by German authorities in each Land, who would

^{1/} Byron Price Report to the President, 9 Nov 1945, released by White House 28 Nov 1945, Bureau of Budget Library, Recommendation No. 5.

Memorandum from Russell Nixon, OMGUS investigations of Cartels and External Asset Division to Lt. Col. R. R. Bowie, Denazification Working Committee, OMGUS, 24 Jan. 1946, OMGUS AG Decimal File 014.3 Denazification Policy, KCRC. SECRET

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consider the cases of persons required to register under the program and classify them as (I) major offenders; (II) activists, militarists and profiteers; (III) followers; and (IV) non-offenders.^{1/}

At the request of OMGUS, the Ministers-President of the three Länder in the US Zone drafted a proposed German law under which the denazification program would be administered. This draft was completed on 22 December, 1945 and was available to the Denazification Policy Board when it prepared its final report. There were, however, substantial differences between the German and American approaches. The basic principle of the German law was that each individual "shall be judged exclusively by his actual conduct, taken as a whole. Formal membership in any organization shall not be decisive."^{2/}

Under the proposals of the Denazification Policy Committee, however, the denazification categories of Military Government directives would be carried over into the German law and would create a presumption of guilt: It would be up to the person accused to prove his innocence. While the German draft contemplated that German authorities would take entire responsibility for denazification, the Board recommended military government supervision on both Land and local levels with no reduction in Special Branches and Denazification Field Inspection Units.^{3/}

^{1/} OMGUS Special Order No. 228, Section 17, Subject: Appointment of Denazification Policy Board, dated 30 Nov. 1945 (mimeographed), as cited in Denazification 40.

Preliminary Report by Working Committee as Denazification Policy Board, OMGUS, 20 Dec. 1945 (mimeographed), CONFIDENTIAL; Report of the Denazification Policy Board to the Deputy Military Governor, OMGUS 15 Jan. 1946, (mimeographed), RESTRICTED; OMGUS AG Decimal File 014.3 Denazification Policy KCRC.

^{2/} German draft of proposed Denazification Law prepared by Land Ministers of Justice, 22 Dec., 1945, OMGUS AG Decimal File 014.3 Denazification Policy, KCRC. RESTRICTED

^{3/} Report of the Denazification Policy Board, as cited in Note 1, pp 19-20 and 26-27.

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There ensued a lengthy dispute, in which OMGUS officials and German officials each claimed that the plan advocated by the other side would be ineffective. These differences were thrashed out by a Laenderrat Committee with representatives of the Regional Government Coordinating Office and the Denazification Policy Board. By late February 1946, the Germans found themselves forced to accept most of the OMGUS proposals.^{1/}

The Law for Liberation from National Socialism and Militarism was approved by Gen Clay on 5 March, 1946 in a letter to the Ministers-President of the Laender. In this letter, Gen Clay told them:

"The opportunity given to you imposes serious responsibilities upon you. United States Military Government is determined that the denazification program must be carried out thoroughly and effectively. You will therefore be held strictly accountable for effective and just enforcement of the law. Supervising, investigating and control measures will be instituted by Military Government so that it may take any actions, or require the German authorities to take any actions, which are necessary to attain the denazification objective."^{2/}

The law, which became effective the same day, provided for a denazification tribunal (Spruchkammer) in each Kreis (County) composed of a Chairman and at least two other members and staffed with a public prosecutor, investigators and other assistants. Appellate tribunals (Berufungskammer) were established as a channel of appeal. All denazification personnel in each Land were under the supervision of a Minister for Political Liberation.^{3/}

^{1/} Denazification 49-62. Letter from James K. Pollock, Director, RGCO, to Gen Clay, 23 February 1946, OMGUS AG Decimal File 014.3 Denazification Policy, KCRC.

^{2/} Letter from Lt. Gen Lucius D. Clay, Deputy Military Governor to the Ministers-President of Bavaria, Wuerttemberg-Baden and Greater Hesse, 5 March, 1946 (mimeographed).

^{3/} Law for Liberation from National Socialism and Militarism, 5 March, 1946, Pollock, Germany Under Occupation, pp. 152-169.

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The law required each adult in the US Zone to fill out a new questionnaire called a Meldebogen. This was reviewed by the local prosecutor and a determination made whether the individual should be tried before the Spruchkammer. Those tried were grouped in five classes rather than the four originally proposed as follows: (1) major offenders, (2) offenders (activists, militarists and profiteers), (3) minor offenders (on probation), (4) followers, and (5) persons exonerated. This classification was entered on the personal identity card of the individual concerned. Those against whom there was no evidence justifying a trial received the notation "not concerned".

At the insistence of OMGUS, there was included as an appendix to the law the list of officials and organizations attached to Control Council Directive No. 24 and derived from the removal and exclusion categories of the USFET directive of 7 July 1945. This restricted the freedom of judgment of the tribunals, and many Germans complained that the Law for Liberation was really an American rather than a German law.^{1/}

Release of Mandatory Arrestees

A subject in which Washington took some interest was the release of individuals interned under the mandatory arrest provisions of denazification directives. In late 1945, their cases were being processed at a slow rate by German and OMGUS Boards of Review.

On 29 November 1945 the Secretary of War requested OMGUS to indicate its plans for disposition of "approximately 80,000 minor Nazis" currently held in camps.^{2/} OMGUS replied that there were over 90,000 arrestees in mandatory

^{1/} Carl J. Friedrich, "Denazification, 1944-1946." Chapter XII

^{2/} Cable, AGWAR to OMGUS, WAR 85745 of 29 Nov. 1945, OMGUS AG Decimal File 014.3 Denazification Policy, KCRG. SECRET

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categories not including 25,000 members of military and paramilitary organizations. Approximately 20% of these were not members of organizations which had been indicted before the International Military Tribunal, and authority was requested to release the 20%.^{1/} On 11 January 1946 the Joint Chiefs of Staff granted Gen Clay authority to release the individuals in question. Later, authority was granted to release on parole internees "who are about to die due to illness," subject to rearrest should their health improve.^{2/}

Difficulties in Operation of the Denazification Law

The operation of the Law for Liberation from National Socialism and Militarism was only partially successful. It was difficult to obtain qualified personnel for the tribunals, and German support was limited. By its very nature, denazification tended to be a "political football". The Special Branch hoped that the biggest Nazis would be tried first, but the German political ministers yielded necessarily to pressure to clear the minor Nazis so they could return to employment.^{3/} This was, of course, a natural consequence of the broadening of the law on which Special Branch itself had insisted. Open opposition to the law appeared in Bavaria, and OMGUS took forceful steps to suppress this criticism and extract expressions of support from the recalcitrant politicians.^{4/}

^{1/} Memorandum from Asst. Sec. of War Petersen to the Asst. Sec. of State, 3 Jan 1946, OPD Decimal File 091 Germany, DRB. SECRET

^{2/} Cables: JCS to Clay, WAR 92682 of 11 Jan 1946, SECRET; WDSGA to COMGENUSFET, WAR 94847 of 18 July, 1946, CONFIDENTIAL; CAD Numerical File, RG-122, DRB.

^{3/} Denazification 76. William E. Griff, "Denazification in the United States Zone of Germany," Annals.

^{4/} A full and frank description of this entire episode is given by Kormann, Denazification 83-92.

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There were numerous complaints that the Spruchkammer were too lenient: OMG Bavaria was forced in July, 1946 to direct the Bavarian Ministry for Liberation to void 40 decisions of a Munich court. A long-smoldering case involving foremen in the Bavarian coal mines broke out in open conflict between the Land cabinet and the Director of OMG Bavaria. The Chief of Special Branch in that Land concluded that he needed more power to give direct orders to the ministry.^{1/} In September, OMGUS found it necessary to issue a circular letter condemning the "defeatist attitude toward denazification on the part of some Military Government personnel" and directing personnel to "refrain from destructive criticism of the Law for Liberation and devote their efforts wholeheartedly to constructive action ..."^{2/} On 5 November, 1946, after a survey had indicated a high frequency with which important Nazis charged as Class I or "major offenders" were declared to be "followers" and punished only by small fines, Gen Clay made a speech to the Laenderrat. He threatened that if the Germans did not improve denazification practices markedly within 60 days, Military Government would resume direction operation of the denazification program. This led to a period of reorganization and stepping up of the activity of the tribunals.^{3/}

Not only OMGUS investigators but also Army Intelligence officers observed the operations of the tribunals and the reaction of the German public. On 21 November 1946 Maj Gen W. A. Burress, G-2 of USFET, reported that the defects of

^{1/} Minutes of Meeting of Bavarian Ministers with General Muller, Director of OMG Bavaria, 5 Aug 1946, OMGUS Decimal File AG 014.3 Denazification Policy, KCRG. This file contains the dockets on a number of similar cases.

^{2/} Letter, HQ OMGUS to Directors of Land Military Governments, 6 Sept 1946, OMGUS Decimal File AG 00.1 (IA) KCRG.

^{3/} Denazification 103-112.

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the Spruchkammer system were causing increasing criticism of occupation policy generally and of the American brand of democracy. The average German regarded the Spruchkammer as a place where big Nazis got off lightly while the "small fry" were made to suffer. German opinion had reached the point of overt actions, such as bombing incidents in the Stuttgart area. According to Gen. Burress, the tribunals were corrupt and often dominated by political parties, especially the Communist Party. The judges, fearing reprisal, released major Nazis who were thus made available to reorganize the Nazi Party. "In view of all the evidence at hand," wrote Gen Burress, "it is our considered opinion that Spruchkammer tribunals, as they are now operating, constitute a long range security threat to the occupation and that the entire Spruchkammer program should be carefully reviewed and amended."

A reply to USFET G-2, prepared by Special Branch and signed by Gen Clay on 26 December 1946, undertook to justify the denazification programs. At the same time it pointed out some of the difficulties inherent in any epuration program of comparable magnitude.

"... The program, which requires the examination of the records of 11,000,000 people with 3,000,000 chargeable under the law is almost without precedent in the history of the world, and could not be expected to proceed without great difficulty...

"... The program was designed to separate the nominal Nazi from the active Nazi so that the former could regain his place as a citizen and contribute properly to the economic revival of Germany. 25% of the people cannot be cast out of an economy or permanently separated from the body politic without creating a chaotic condition.

1/ Memorandum, from Maj Gen. W. A. Burress, AC/S G-2 USFET, to Chief of Staff, USFET, 21 Nov 1946, OMGUS AG Decimal File 014, 3 Denazification Policy, NORG. SECRET

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"In any analysis of the denazification program, it must be remembered that 25% of the people are chargeable under the law, and that this in itself will make for an unbelievably large amount of criticism of the law by Germans as it is applied."

However mild the sentences might seem, the report continued, denazification had been even milder in the other zones. Of course those punished by the Spruchkammer would be resentful: the only thing to do was to resist such subversion. The supporting data, it was held, did not justify accepting the conclusions of the G-2 report as other than an expression of opinion.^{1/}

The Amnesties

During the course of 1946, two steps were taken which reduced the number of cases to be considered by the denazification tribunals. The first of these was the "Youth Amnesty" proclaimed by OMGUS on 8 July, 1946, which eliminated the cases of approximately 2,000,000 registrants born between 1 January, 1919 and 5 March, 1928. Of these, approximately 410,000 were chargeable as members of the Hitler Jugend and the Bund Deutscher Maedel. The Amnesty did not apply to those charged as Class I or II offenders nor to those against whom there was specific evidence of crimes.^{2/}

The Youth Amnesty was proclaimed by Military Government without prior consultation with Washington, and occasioned no particular comment at the time. In August, the War Department cabled that it needed more adequate reports to deal with "considerable criticism" of the denazification program. The cable also requested, in the interest of better coordination, "... that contemplated action be reported here for approval before it is initiated." A week later,

^{1/} Letter, Deputy Military Governor to Commanding Gen USFET, 26 Dec 1946, OMGUS AG Decimal File 014.3 Denazification Policy, KCRG. SECRET

^{2/} OMGUS Weekly Information Bulletin, No. 50, 15 July 1946, p. 24

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however, another telegram was sent reading: It is the considered view in the War and State Departments that the underlying policies of all commitments made by you are concurred in and approved here." 1/

In December 1946 the Laenderrat proposed an additional amnesty for former Nazis not chargeable in Groups I or II whose taxable income and property did not exceed a very modest figure or who were 50% or more disabled. This proposal was estimated to reduce by 700,000 the number of cases to be tried. Gen Clay referred the question to the War Department in the following terms:

"The proposed action is within the authority of this office and therefore I am not requesting approval. However, I do not want to take action with such far reaching results if you have strong objections thereto." 2/

On 21 December 1946 OMGUS was advised that the Departments of State and War agreed with the proposed amnesty, provided that the base year for computing income be changed and that cases be reopened should evidence develop indicating an individual to be a Class I or Class II offender. The amnesty, known as the "Christmas Amnesty" was announced on 26 December, 1946. It was later estimated to have reduced by 800,000 the number of cases tried by the Denazification Tribunals. 3/

1/ Cables, AGWAR to USFET and OMGUS, W 97043 of 9 Aug and WX 97736 of 16 Aug, 1946, OMGUS AG Decimal File 014.3 Denazification Policy, KERC. SECRET

2/ Cable, OMGUS sgd Clay to WD for WDSCA personal for Echols, CC 7373 of 15 Dec, 1946 CAD Numerical File, RG-122, ORB. SECRET

3/ Cable, WDSCA GO to OMGUS, WAR 88250 of 21 Dec 1946, CAD Decimal File 311.23, RG-122, DRB. SECRET Denazification 114.

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ISSUES INVOLVING INTER-ALLIED NEGOTIATIONS

In certain fields of occupation policy, such as denazification, it was possible for OMGUS to plan and execute a program unilaterally, even though its effectiveness might be hampered by discrepancies among zones. In other cases, there could be little or no achievement without agreement among the occupying powers. In late 1945 and early 1946, important inter-allied negotiations took place on three subjects within our purview: the German level of industry, disposal of German external assets, and establishment of German central agencies.

The Level-of-Industry Agreement

The negotiations to determine the permitted German level of industry, plants in excess of which would be declared available for reparations under the Potsdam Agreement, took place in the Allied Control Council during the first quarter of 1946. The basic guidance available to OMGUS in these negotiations was the State Department reparations paper of December 1945. It was supplemented by communications through War Department channels on various technical and legal phases of reparations. An OMGUS paper of 18 January, 1946, entitled "The Future Level of German Industry" and outlining policies to be pursued in the Control Council, was forwarded through the Civil Affairs Division to the Department of State, which returned a number of detailed comments through War Department channels. These comments did not affect the basic reparations and level-of-industry program set forth in the paper, which was considered by both the State and War Department to be "a really monumental achievement."^{1/}

^{1/} Letter from Maj Gen J. H. Hilldring, Director, CAD, to Brig Gen W. H. "Raper, Jr., Assist. Deputy for Resources, OMGUS, 1 Feb 1946, WDSCA Decimal File 014 Germany, RG-122, DRB.

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There was only one aspect of the reparations and level-of-industry problem on which Washington undertook to supplement the December 1945 memorandum. This was the question of how much steel-making capacity should be left in Germany. On this subject, General Clay writes:

"Fixing the level of industry was impossible unless we could reach an agreement on steel production. I was convinced of the merits of the Hoover Proposal and was anxious to receive a suggestion from the State Department that 3,500,000 tons would be adequate. This would have put the United States in favor of a more drastic program than any of the other powers. While I did not accept this suggestion, it influenced me considerably to propose figures below the 7,800,000 tons which in the hope of compromise we had settled on at the desirable capacity."

The compromise level of allowable steel production recommended by General Clay was 5.8 million tons. This figure was accepted by the State and War Departments on a basis for negotiating with the British, who were insisting on retaining a capacity of 7.5 million tons and who ^{would} have preferred nine million tons.^{1/}

At the instance of the State Department, OMGUS was also instructed to base level-of-industry negotiations on the existing boundaries of Germany less territory east of the Oder-Neisse Line, notwithstanding the fact that possible separation of the Saar and the Ruhr would make revisions necessary.

On 26 March 1946, the four occupying powers in the Control Council agreed on a "Plan for Reparations and Level of Post War German Economy, ". This plan left a steel production capacity of 7 million tons a year but provided that actual production over 5,800,000 tons in any year would require specific approval by the Allied Control Council. The level of heavy industry as a

^{1/} Decision 108. Cables, WD to OMGUS, Clay personal from Hildring, WAR 94806 of 26 Jan 1946; OMGUS to WD, CC 22395 of 1 Feb, repeating earlier OMGUS cable to State Dept; CAD Numerical File, RG-122, DRB. SECRET

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whole was set at about 50 to 55% of the 1938 level. A number of industries, such as synthetic gasoline, rubber and ammonia, ball and taper roller bearings, aluminum and magnesium, etc., were to be eliminated altogether. Other industries, such as basic chemicals, machine tools and heavy engineering, were to be reduced to 40% or less of their pre-war capacity.^{1/}

In the meantime, a delegation administered by the Department of State had participated in the Inter-Allied Reparation Conference in Paris. This conference produced the so-called Paris Reparations Agreement of 14 January 1946 which allocated to each country percentage shares of German reparations (except those going to the USSR and Poland) and which established the Inter-Allied Reparations Agency to distribute individual items of capital equipment among the various claimants. An annex to this agreement contained a number of resolutions. At the instance of the State Department, the War Department on 2 March 1946 cabled to OMGUS instructions to support certain of these resolutions and oppose others in dealing with reparations questions in the Control Council.^{2/}

The plan for reparations and the level of the post-war German economy adopted by the Control Council had been based on the assumption of the economic unity of Germany. On the latter score, however, the Soviet Representatives took the position that there could not be a pooling of German resources

^{1/} Three Years of Reparations, Special Report of the Military Governor, Nov. 1948, p. 2; Final Report on Foreign Aid, House Report No. 1845, 80th Congress, Second Session, p. 147; Control Council Paper CONL/M(46)9, approval of Level-of-Industry Plan by Control Council, 3/26/46, also paper CORC/M(46)16 of 20 March 1946, "Level-of-Industry Plan and Assumptions on Which It is Based."

^{2/} These instructions were contained in Cable WAR 99164 of 2 March 1946, From WAR CAD to OMGUS, WDSOA 014 Germany and also CAD Numerical File, RG122, DRB. RESTRICTED. See Also the Paris Reparations Agreement with Annex, Occupation 49-64 or Decade, 976-988

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until after each zone had achieved a balanced economy.^{1/} In May 1946, therefore, General Clay announced in the Control Council that dismantling for reparations would be suspended in the United States Zone, except for category I War Plants and advance reparations plants. Shipment of advance reparations plants (those allocated prior to the Level-of Industry Agreement) to the Soviet Union continued, however, until early 1948.

German External Assets

The Potsdam Protocol had provided that the Allies would take over all German external assets not already in United Nations hands, for use in meeting reparation claims. The negotiations for accomplishing this were conducted largely on government level by the Department of State.

At the insistence of OMGUS, the Allied Control Council had established the German External Property Commission to administer German external assets. The Department of State undertook an extensive series of negotiations with Allied and neutral countries concerning the vesting of these assets in the GEPC. These present an entire administrative case in themselves and it is not possible to deal with this subject extensively in this study.

To illustrate the problems of policy and administration that the external assets negotiations involved for Military Government, however, there is cited here a memorandum of 5 February 1946 from the Director of OAD to the Assistant Secretary of War.

"1. In CM-IN-6413, 28 January, 1946, General Clay states that the Office of Military Government is "completely at sea"

1/ Decision, 121-122.

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regarding the responsibilities of the German External Property Commission and asks for immediate policy clarification. The attached letter outlines the elements of confusion in this situation which have disturbed General Clay and the War Department.

"2. On the instructions of the President, the insistence of the State Department, and over the opposition of the British Government, General Eisenhower successfully argued in the Control Council meeting of 2 October, 1945 for the adoption of ACC Law No. 5. This law was enacted on 30 October establishing the German External Property Commission as an agency of the Control Council and placing all rights, titles and interests in German external assets in the Commission for disposition as directed by the Control Council.

"3. The War Department has since endeavored to obtain firm policy guidance from the State Department concerning the functions of the Commission. Because it recognized the importance of dealing with the problem of German external assets in such a way as to insure coordinated governmental policies towards all foreign governments concerned, the War Department has not questioned the course followed by the State Department up to this time. But three months have now gone by since the passage of the law and discussions at intergovernmental diplomatic levels have not clarified the function or procedures of the Commission.

"5. ...The Commission has recently agreed to circulate a note to the neutrals asserting title to all German external assets including German war materials and asks the neutrals to furnish an inventory of such materials. An official of the State Department (Mr. Murray, Chief, Division of Economic Security Controls) now proposes to request the British and French Governments to instruct their members on the Political Directorate [of the Allied Control Council] to disapprove the note and to urge the Commission instead to ask all four governments to submit the request for an inventory to the neutrals through diplomatic channels. The State Department's proposals appear inconsistent with the terms of the Vesting Decree and the powers of the Commission thereunder.

"6. Confusion exists also regarding the organization and procedure of the Commission. On 19 November 1945, the State Department request the organization of the Commission in two branches...

"7. Attached draft letter for the signature of the Secretary of War to the Secretary of State summarizes the above development and urges that immediate guidance be given to the War Department as to the scope and functions of the GEPC. The letter request specific guidance whether this government is prepared to support the Vesting Decree by the threat of sanctions against the neutrals if such a course proves to be necessary."¹

¹ Memorandum (quoted with minor omissions) from Director of CAD to Assist. Sec of War, 5 Feb 1946, WDSCA Decimal File 014 Germany, RG-122, DRB.

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Policy on external assets continued to be indefinite for many months. The State Department could, of course, point out that since firm policy depended on agreement with other allies at a governmental level, it would have been difficult to be more definite without such agreement. The only other way to handle the problem would have been to throw it entirely into the laps of the Military Governors. It is doubtful whether the British or the French would have been willing to take this step.

Central German Agencies -- Efforts to Overcome French Opposition to Their Establishment

It had never been thought that the US Zone of Germany alone could become self-supporting. US policy was at all times based firmly on the principle of treating Germany as an economic unit. The civilian supply plans developed by the War Department under the Presidential order of 29 July 1945 contemplated an export-import program for all four zones adopted by the Control Council and administered by a central German agency.^{1/}

During the autumn of 1945 it was not the Soviet Union but France that obstructed the establishment of central German administrative agencies. Although such agencies for finance, transport, communications, foreign trade and industry were specifically provided in the Potsdam Protocol, the French refused to be bound by this document, to which they were not signatories. After Gen. Clay had reported the French rejection of US proposals for central administrative agencies in the Control Council meetings of 22 September and 12 and 16 October 1945, the War Department cabled him as follows (Quoted in paraphrase):

^{1/} Memorandum from Deputy Chief of Staff to Director, CAD, Budget Officer and Commanding General, ASF, Subject: Procurement and Initial Financing of the US Program for Germany, 5 Aug 1945, CAD Decimal File 014 Germany, DRB.

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The Departments of State and War agree with you fully that further delay in carrying out the Berlin Protocol provision to establish central administrative machinery would, in fact, prevent Control Council from functioning as controlling agency for Germany...

Authorization is granted you therefore to enter into any arrangements within the framework of the Berlin Protocol with the Soviets and British establishing central administrative machinery for the respective three zones of occupation. Such arrangement, it should be understood, is for administrative purposes only with no prejudgment intended of the final disposition of territories within these zones.1/

A principal reason for French obstruction of central German administrative agencies was the desire of France to internationalize the Ruhr and the Rhineland. Gen Koeltz, the French representative on the Control Council, cited to Gen Clay his instructions from Paris to oppose setting up the Agencies until the Ruhr-Rhineland question had been settled. At the meeting of 3 November 1945 at the State Department, Gen Clay requested that US views on the French internationalization proposal be defined. In planning the German level of industry for reparations purposes, it was necessary to know whether the Ruhr and Rhineland were to be separated from Germany.

It was explained that the French had been invited to discuss the matter in Washington, and that the Secretary of State probably would not prejudice the US position before hearing French arguments. Gen Clay then noted the Soviet belief that the US and Britain were secretly supporting French obstructionism, and H. Freeman Matthews of the State Department admitted that diplomatic pressure to treat Germany as a unit had not yet been brought on the French. As for the alternative of central agencies without the French, Gen Clay pointed out that the USSR would probably demur until assured regarding US/UK views on the Rhineland.

1/ Cable, CM OUT 77596, WD to OMGUS, 20 Oct 1945, CCAC Decimal File 014 Germany, RG-999, DRB. CONFIDENTIAL

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In the discussion which followed, James W. Riddleberger of the State Department commented on Soviet actions that conflicted with Potsdam, such as inhumane and unplanned transfers of population, inter-zonal barriers, control of the press and development of favored political parties in the Soviet Zone as well as unilateral land reform and nationalization of industry. Gen Clay replied that it was not the Soviets who were failing to carry out Potsdam: They favored the creation of central administrative machinery which the French continued to veto. There was some merit to their position that inter-zonal barriers could be removed only after establishment of such machinery. Furthermore, Gen Clay believed that the USSR had gone further than the French in the introduction of democratic procedures in their zone. Population movements from the east were caused by the Polish Government, the remedy being not in the Control Council but on the diplomatic level. In matters such as land reform, both the Soviet Union and the United States were acting unilaterally in the absence of quadripartite agreement.

The entire record of the Control Council, said Gen Clay, showed that the USSR was willing to cooperate with other powers in operating Germany as a single political and economic unit. It had blocked no more than one or two papers in the Control Council, which could not be said for the other members. According to the official report of this meeting, "Gen Clay concluded by stating the view that our relations with the USSR in the government of Germany were of decisive importance in the foreign policy of the United States and that unless our relations succeeded in working effectively in that laboratory, our entire foreign policy with respect to Russia would be in jeopardy. Mr

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Clayton [Assistant Secretary of State] expressed full concurrence with the foregoing conclusions.^{1/}

Gen Hildring then addressed a memorandum to the Secretary of War recommending that he urge the Secretary of State to furnish guidance on the US position on Ruhr-Rhine internationalization and to press the French to agree to central German administrative services. Secretary of War Patterson took up the matter with Secretary of State James F. Byrnes at a meeting on 6 November, following this action with a letter on 21 November 1945.^{2/} This recommendation was reinforced by the Byron Price report of 9 November which criticized French policies in strong terms and urged "use of the full force and prestige of American diplomatic power" to break the deadlock in the Control Council.

Acting Secretary of State Dean Acheson replied in a letter received in the War Department on 13 December 1945, in which he reported a series of meetings with the French delegation, led by M. Couve de Murville, from 13 to 20 November. Although no definite statement of the American attitude had been made to M. Couve de Murville, he had been told that the United States would not agree to any unilateral action changing the Potsdam Agreement. The French Government was presenting its proposal to the British and Soviet Governments, after which the Department of State would consult with them and

^{1/} Minutes of Meeting at State Department, 3 Nov 1945 as cited in Note 1, ^{p.20} Commenting later on US-Soviet relations, Gen Clay wrote: "I have stated elsewhere that I believe it would have been preferable to establish the central agencies and try to resolve our differences within the framework envisaged at Potsdam. Others do not agree. I have heard Mr. Bohlen comment that the French saved us by their early veto actions. Some time later I heard Ambassador Bedell Smith say that at the time we were too naive politically to cope with the Russians in such a framework. I realize that if we had formed the central administrative agencies our basic differences would have remained and the same struggle would have occurred within this framework." (Decision, 131)

^{2/} Memorandum from Gen Hildring to the Sec of War, Subject; Internationalization of the Ruhr-Rhineland, 5 Nov 1945, with handwritten note by Sec Patterson of 7 Nov 1945, WDSCA Decimal File 014 Germany, RG-122, DRB.

SECRET

then reach a conclusion on the French proposal. In the meantime, Military Government had authority to establish central administrative agencies without the French, who had been so informed.^{1/}

Secretary Patterson had written a second letter to the Department of State on 10 December 1945, supporting Mr. Price's recommendation of energetic measures to break the deadlock. This letter evidently crossed the letter from Acting Secretary Acheson. The latter, however, conflicted with the State Department memorandum forwarded to the theater on 7 December 1945, which had defined Germany for reparations purposes as the 1937 Reich less territory east of the Oder-Neisse line. The more recent statement that no "categorical answer" on the Ruhr-Rhineland could be given raised doubt as to the firmness of this assumption. Accordingly, on Gen Hilldring's recommendation, Secretary Patterson again wrote the Department of State on 28 December 1945, drawing attention to the apparent conflict and urging again that all possible pressure be brought on the French. The War Department, he stated, feared that continued French refusal to establish central administrative machinery in Germany might cause a breakdown of the Potsdam provisions on treatment of Germany as an economic unit.^{2/}

ECONOMIC PROBLEMS OF EARLY 1946

Uncertainty whether and when Germany would be treated as an economic unit hampered attempts to return to a semblance of economic normalcy during the first months of 1946. Cases in point involved, typically, questions of foreign trade transactions, private investment, food and coal.

^{1/} Letter from Acting Sec of State Dean Acheson to the Sec of War, undated, received in War Department 13 Dec 1945, WDSCA Decimal File 014 Germany, RG-122, DRB
^{2/} Letter from Sec of War Robert P. Patterson to Acting Sec of State Dean Acheson, 28 Dec 1945, WDSCA Decimal File 014 Germany (file date 20 Dec 1945), RG-122, DRB

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Resistance to Reopening of Normal Trade Channels

At the outset of the occupation, German exports to the United States had been administered directly by Military Government in Germany and by the US Commercial Corporation in Washington. The latter was a government-owned corporation which purchased the German products and re-sold them to the ultimate importers.

Early in 1946 OMGUS proposed that various types of transactions be handled through direct contacts between American and German business men authorized by a general Treasury license under the Trading With the Enemy Act and in conformity with OMGUS policies and directives. On 13 March 1946, the War Department cabled that both it and the Department of State considered this proposal premature. It was argued that American businessmen might bring pressure for allocation of raw materials, fuel and transport to specific plants in conflict with general plans for reactivating the German economy. The main reason, however, was the belief that direct purchase of goods from Germans by American businessmen could be arranged only in agreement with the other occupying powers since it would involve establishing an exchange rate for the Reichsmark. Furthermore, American businessmen would be interested in products from other zones, making necessary inter-Allied agreement to provide facilities for foreign businessmen.^{1/}

At the same time, a tight control was retained on German exports to countries other than United Nations. JCS 1067/6 had prohibited such exports unless specifically authorized by Washington. On 18 April 1946, SECNCC approved a modification lifting the prohibition of exports to ex-enemy countries, which would

^{1/} Cable, WAFPCAD to OMGUS, WAR 80582 of 13 March 1946, referring to CM-INS 1724 of 8 Feb and 2593 of 12 Jan 1946, CAD Numerical File, RG-122, DRB. CONFIDENTIAL

SECRET

still, however, be reported in advance for the information of the government. The restriction on exports to neutral countries was continued, but it was agreed that government approval of such exports from the US Zone would be granted by the War Department with only telephone concurrence by the State and Navy Departments. Even so, this procedure was cumbersome and hampered the reactivation of German exports to countries such as Switzerland and Sweden.^{1/}

Moratorium on Foreign Investments in Germany

The Department of State also refused to approve proposals for expansion of existing investments or creation of new property interests in Germany. Its reasons, as cabled to OMGUS on 15 March 1946 through War Department channels, were:

- "1. Absence Quadripartite Agreement on
 - (A) Levels of industry,
 - (B) Designation of industrial capital equipment to remain in Germany,
 - (C) Conditions under which extensions of foreign investments in Germany will be permitted so as to insure equal opportunity for all and discourage speculative transactions;

2. Uncertainty as to date resumption normal economic functioning post-war peace time industry of Germany and present financial disorder in Germany.

The Department of State requested that OMGUS seek Control Council agreement on a moratorium on new foreign investment in Germany. At the same time, the Department was preparing a policy to be put in effect after the moratorium should be

1/ JCS 1067/6, paragraph 41c; SWNCC papers of 21 March and 1 April 1946, initiated by JCAC and approved by SWNCC on 18 April 1946; JCAC concurrence of 11 May 1946; JCS approval on 21 May 1946; Cable, WD to USFET and OMGUS, WAX 88706 of 21 May 1946; OMGUS JCS 1067 File, MCRC. RESTRICTED

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terminated. Effectuation of this ultimate policy, however, would depend on quadripartite agreement on the basic outlines of over-all economic policy.^{1/}

The Soviet Union was not inclined to agree to a prohibition against foreign acquisition of interests in Germany. In the Soviet Zone, important industrial properties had been transferred to direct Soviet ownership in the form of Soviet Aktiengesellschaften (share corporations). In the US Zone, however, the moratorium was imposed by means of Military Government Law No. 53, which prohibited property transfers of the types involved in foreign investment.^{2/}

The 1946 Food Crisis

At no time since the beginning of the occupation had the food situation in Germany been even remotely satisfactory. It had proved possible to meet the established ration of 1550 calories; but a serious crisis developed early in 1946.

Both OMGUS and the War Department had recognized that even the 1550-calorie ration would not support the health of the population over an extended period. Late in 1945, the War Department requested the Department of Agriculture to allocate additional wheat so that the theater commander could, at his discretion, raise the daily food ration to 2000 calories. This request was, however, refused on the ground that the acute world wheat shortage and deficits in liberated areas made an increase in War Department allotments impossible. At a meeting of Agriculture, State and War Department officials on 18

^{1/} Cable from WARCAD to OMGUS, WAR 80912 of 15 March 1946, CAD Numerical File, RC-122, DRE. RESTRICTED

^{2/} Property Control in the US-Occupied Area of Germany, Special Report of the Military Governor, July 1949, pp. 24-68.

SECRET

January 1946 it was agreed that the general world food shortage might prevent the Military Governor from complying with existing directives to avoid starvation, disease and unrest which might endanger the occupying forces. Without prohibiting an increase in rations, the War Department nevertheless warned the theater that supplies might not be forthcoming to support an increase.^{1/}

Shortly thereafter, President Truman appointed a committee consisting of Secretaries of Agriculture and Commerce and the Assistant Secretary of State to investigate the world food situation and determine what the United States could do to meet it. This committee reported that only 11 million tons of wheat were available to meet total world requirements of approximately 20 million tons.^{2/}

The food situation in Germany became worse rather than better. In February 1946 the available ration began to drop, a movement which continued until May and June, at which time only 1180 calories per day were available for the normal consumer. Food stocks on hand were further reduced by an emergency loan from the US and British Zones to the French Zone, made in response to a French request presented in Washington. By March 1946 there was definite evidence of suffering and economic recovery was paralyzed.^{3/}

The Department of State proposed that food supplies in the three Western Zones be equalized, to which OMGUS objected since such a policy would jeopardize the theater commander's ability to control the situation. The War Department

^{1/} Cable, WARCAD to OMGUS, WAFX 93672 of 18 January 1946, referring to December WAR 90945 and Jan CC 21684 (CM-IN 3582), CAD Numerical File, RG-122, DRB.
CONFIDENTIAL

^{2/} Cable, WARCAD to OMGUS, WAR 99130 of 1 March 1946, CAD Numerical File, RG-122, DRB. SECRET

^{3/} Cable, WARCAD to OMGUS, WAFX 96974 of 12 February 1946; also WARCAD to OMGUS, WAR 80107 of 9 March 1946; CAD Numerical File, RG-122, DRB. SECRET. Decision 265-65.

SECRET

agreed to support this objection but stated that to sustain its position it would be "absolutely essential to lower the feeding level of the United States Zone". OMGUS was notified that there would be no more shipments of wheat until the next crop, that is until July 1946.^{1/} According to a Civil Affairs Division teleconference with the OMGUS Food and Agriculture Division on 19 March, the War Department had only 650,000 to 800,000 tons of wheat for the first half of 1946. Priority had to be given to Japan, where the ration was currently 1050 calories for the normal consumer and threatened to drop to 471 calories in May.^{2/}

In a teleconference with Assistant Secretary of War Howard C. Petersen and officials of CAD and the Department of State on 20 March, General Clay explained the levels of shipments necessary to support rations of 1200, 1313 and 1550 calories in Germany, pointing out that stocks on hand would cover only 900 calories until the coming harvest. This ration, Gen Clay stated, was close to starvation. Assistant Secretary Petersen then indicated the War Department's troubles in obtaining firm food commitments, as follows:

"Petersen: I realize the difficulties you have, and I would like to give you some definite assurance as to what level of feeding you can sustain through the imports we will give you, so that you can plan until the next harvest. We have been after this thing here quite strenuously, on a cabinet level, for several weeks; we have no definite commitments out of the other departments of government. The estimates of food available for export, and the needs of various claimants before these combined food boards, shift almost daily. As a matter of fact, they do not really have a program. Each time you meet, there are different supply and demand figures; and thus far, the combined food board, which is a British, American and Canadian Board, had not made definitive allocations for the January through June loading period. They are on a hand-to-mouth basis, and

1/ Cables, WARCAD to OMGUS, WAR 80107 of 9 March 1946; WARCAD to O. CAS, WAR 80970 of 16 March 1946; CAD Numerical File, RG-122, DRB. SECRET

2/ Telecon, WD TT 5900 of 19 March 1946, CAD Numerical File, RG-122, DRB. CONFIDENTIAL

SECRET

and it is a constant struggle to get month-by-month allocations. To show you how bad it is, it is March 20th today, and they have not finally determined on March allocations; and the month is two thirds gone."

Gen Clay replied that unless 50,000 tons a month for April-June could be allocated, it would be necessary to drop to the 900 calorie level. He then announced that the theater commander would cable the same day that this level of feeding would require additional troops to control the Zone.^{1/}

The net result of considerable further conferring and cabling, during which General Clay pointed out that the continuance of the existing 1550-calorie ration in the Soviet Zone would make Communism look very attractive to the Germans, was a firm allocation of 50,000 tons per month from April to June. In spite of repeated energetic representations by the War Department, however, the Department of Agriculture refused to make any commitments beyond June since the over-all allocating authority, the Combined Food Board, was awaiting the results of a survey by former President Herbert Hoover.^{2/}

The influence of former President Hoover was decisive in obtaining increased food shipments to Germany. Acting upon Petersen's recommendation, Gen Clay visited Hoover soon after his arrival in Europe. When Hoover came to Berlin, he was given a full briefing on the food situation by OMGUS and German officials. This convinced Mr. Hoover that the food shortage in Germany was more acute than elsewhere in Europe.^{3/}

^{1/} Teleconference WD-TC 5907, 20 March 1946, CAD Numerical File, RG-122, DRB, SECRET

^{2/} Cable, from Petersen personal to Clay, WAR 81490 of 21 March 1946, CONFIDENTIAL; Cable, WARCAD to OMGUS, WAR 82185 of 26 March 1946; Teleconference, Assist. Sec Petersen and Gen Clay, TC 5967 of 27 March 1946, SECRET; Teleconference, Gen Draper and Gen Echols, WD TC 5983 of 29 March 1946, SECRET; Cable, from Eisenhower personal to McNarney, WARX of 3 April 1946, SECRET; CAD Numerical File, RG-122, DRB.

^{3/} Cable, Petersen personal to Clay, WAR 81490 of 21 March 1946, CAD Numerical File, RG-122, DRB. CONFIDENTIAL. Decision 266-67.

SECRET

Renewed Controversy Over Allocation of Coal

Coal also became an issue in early 1946. On 8 March, the French Embassy presented a note to the State Department complaining that France was not receiving a sufficient share of increasing German coal production. The French pointed out that President Truman's directive of July 1945 required maximum coal exports to liberated countries. The State Department was asked to instruct the US representative on the Coordinating Committee in Berlin to comply with the directive. While it was the intention of the Department of State to be guided by the comments of OMGUS in dealing with the situation, there was a slight misunderstanding, causing Gen Clay to inquire whether the German coal economy was to be run from Berlin or from Washington.^{1/}

The State Department then gave assurances that no formal action would be taken on the German coal problem without prior consultation with OMGUS. A new coal policy was proposed, allocating coal so that liberated countries would have 15 percent more coal than the level of consumption in Germany.^{2/} From April on, the production and distribution of coal were the subjects of continuing negotiations on both the military government and diplomatic levels. The issue was still unsolved when the second part of the Second Session of the Council of Foreign Ministers was held in Paris in June and July 1946.

The difficulties with food and coal had emphasized the need for unifying the several zones of Germany if any economic progress was to be made at all. Matters were complicated further when, on 12 March, the British Military

^{1/} Cables; WARCAD to OMGUS, WAR 81808 of 21 March 1946, SECRET; OMGUS from Clay signed McHarney to AGWAR for WARCAD (personal for Echols), CC 2720 of 8 April 1946, CONFIDENTIAL; CAD Numerical File, RG-122, DRB.

^{2/} Cable, WD to OMGUS, Clay personal from Echols, WAR 85224 of 20 April 1946, CAD Numerical File, RG-122, DRB. SECRET

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Governor, Gen Robertson, notified Gen Clay that he desired to terminate the pooling of export proceeds from the US and British Zones which had been in effect since 1 August 1945. After some discussion between the Military Governors, the question of subsequent pooling arrangements was referred for negotiation at governmental level.^{1/} Furthermore, the failure of the United States and Britain to bring more effective pressure on the French for establishment of central German agencies had caused an unsatisfactory development of German public opinion.^{2/} It was obvious that the increasing disintegration of Germany into four separate zones had to be stopped.

STEPS TOWARD BIZONAL UNIFICATION

The Possibility of Partial Unification of Germany is Broached

In April 1946 the Civil Affairs Division, with the concurrence of the Assistant Secretary of War, prepared a staff study recommending that the SWGCC Subcommittee for Europe develop a definite United States policy on the French demand for special treatment of the Ruhr-Rhineland area, on the establishment and recognition of central German government, on denazification policy, and on the length and type of occupation of Germany.^{3/} In Berlin, Gen Clay began to consider the possibility of unifying two or three zones of Germany if all four powers could not agree; in April 1946 he and Ambassador Murphy discussed this

^{1/} Cable, from OMGUS signed Clay to AGWAR for WARCAD, CC 2319 of 31 March 1946, CAD Numerical File, DRB. SECRET

^{2/} Staff Study, from CAD (Gen Hilldring) to S/W via OPD and C/S, 23 Feb 1946, Subject: Review of Existing Policy on Political Discussions in Germany, WDSGA Decimal File 014 Germany, DRB. CONFIDENTIAL

^{3/} Staff Study from CAD to AS/W via OPD and C/S, 10 April 1946, WDSGA Decimal File 014 Germany, RG-122, DRB. SECRET

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possibility with Secretary of State Byrnes, who had arrived in Paris for the Second Session of the Council of Foreign Ministers. Gen Clay reports this conversation as follows:

"We had told Byrnes that we believed a merger of our zone with the British Zone confined to economic matters would not result in the breakdown of the Allied Control Authority. We found Byrnes convinced that the Soviet Government did not intend to treat Germany as an economic unit and he agreed that the fusion of our zone with other zones was desirable. He did not wish to take such a step before he had extended an invitation to all the occupying powers in a meeting of the Council of Foreign Ministers."

Gen Clay summed up the situation in Germany in a letter, which he repeated in somewhat condensed form in a cable on 26 May 1946. He pointed out that the concept of economic unit agreed at Potsdam was meaningless without the central administrative agencies which did not yet exist. The zones were still air-tight territories with almost no free exchange of commodities, persons and ideas. There was drastic need for common economic and fiscal policies lest runaway inflation produce paralysis. Without economic unity, the reparations and level-of-industry plan would have to be revised to avoid economic chaos.

Gen Clay proposed to keep the Ruhr-Rhineland area in Germany, establishing a Ruhr control authority that would administer the coal and steel industry in the area. If, however, the Soviets and French would not accept such a solution, then it was necessary to consider possible economic merger of the British and United States Zones alone. As Gen Clay pointed out:

"The British and U. S. Zones together could, within a few years become self-supporting although food would have to be provided during this period until industry could be rehabilitated sufficiently to provide requisite exports to support food import. Recognizing fully the political implications of such a merger it is our belief

1/ Decision 165

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that even these implications would not be as serious as the continuation of the present air-tight zones. If French and Russian agreement to these basic principles cannot be obtained, we would recommend strongly that the British be approached to determine their willingness to combine their zone of occupation with ours. If the British are willing for this merger to be accomplished, the French and Russian representative should be advised that it is our proposal to effect this merger before winter, even though we would much prefer to obtain Allied unity in the treatment of Germany as a whole.^{1/}

Continued negotiations with the French on central German agencies had produced no substantial results. On 17 April 1946, H. Freeman Matthews, Director of the State Department's Office of European Affairs, reported the course of these negotiations to Assistant Secretary of War Petersen as follows:

"On February 1, 1946 the Secretary of State sent a personal message to Mr. Bidault, the French Minister of Foreign Affairs, asking that the French Government reconsider its attitude on this question. Mr. Bidault replied on March 2, reiterating the French arguments but indicating his willingness to examine the establishment of German technical administrations under the Control Council. This exchange of messages was made public on March 8 and is no doubt available to the War Department.

On March 12, 1946, the French Ambassador informed the Department that, as a result of the Byrnes-Bidault exchange of messages, the two Governments seemed to be coming close together on the question of German agencies. Subsequently the French Embassy suggested that the French Government was approaching our view of this matter but would like to refer to the central agencies as "services communs". The Department indicated that it saw no objection to this title, provided that the substance of the Potsdam decision was retained.

The French Government has recently requested that the American Government review the question of the French Zone in Germany and make certain adjustments that the French desire, particularly in the province of Baden. It is anticipated that the Department of State, in concurrence with the War and Navy Departments, will shortly reply in the negative to this request but will indicate its willingness to take the matter up again once central agencies have been established and are operating in Germany.

^{1/} Cable, CC 5797 from OMGIS to War Department, quoted with slight deletions in Decision 73-78.

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It should also be stated that in connection with the French desire to obtain permanent occupation of the Saar, this Government had indicated its willingness to support the French desire in this regard, provided it will agree to the early establishment of central German agencies."

Matthews added that further pressure would be brought to bear on the French in the course of economic and financial negotiations. US economic assistance, for instance, as well as the amount of coal which France could expect from Germany, were intimately linked with the problem of central German agencies. To the French suggestion of a four-power conference on central German agencies and the Rhineland-Ruhr question, the Secretary of State had replied that he was willing to discuss German problems in the forthcoming meeting of the Council of Foreign Ministers after disposition of the draft treaties with the satellite countries.^{1/}

Major Gen Oliver P. Echols, the new Director of the Civil Affairs Division following Gen Hildring's transfer to the State Department, cabled Matthews' message in its entirety to Gen Clay. He added the suggestion "that if possible you go to Paris and discuss with Sec Byrnes and Mr. Matthews the progressive deterioration of quadripartite relations in Berlin and urge upon them the necessity for an immediate solution of this problem."^{2/}

Gen Clay proceeded to Paris, accompanied by Ambassador Murphy. Secretary Byrnes explained to Gen Clay that he had introduced in the CFM a proposal for four-power cooperation to keep Germany demilitarized for 25 years, but had obtained no support from Molotov for this project. Gen. Clay describes the discussion of the conference on Germany as follows:

^{1/} Letter from H. Freeman Matthews, Director Office of European Affairs to Asst Sec of War Petersen, 17 April 1946, WDECA Decimal File 014 Germany, RG-122, DRB
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^{2/} Cable, WD to OMEUS, for Clay personal from Echols, WAR 85764 on 24 April 46, CAD Numerical File, RG-122, DRB. SECRET

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"I attended the May 15 meeting in Luxembourg Palace and sat with the American delegation at the conference table. On that day Foreign Minister Georges Bidault made it clear that the French Government required consideration and solution of the problems of the Ruhr, the Rhineland, and the Saar in the interest of security before it would consent to the establishment of central agencies in Germany. He stated that the Ruhr should be under international political and economic control, the left bank of the Rhine should be garrisoned permanently by Allied troops, German territory west of the Rhine should be made into a separate province, and the Saar territory should be integrated economically but not politically with France.

"Bevin expressed willingness to consider the French proposals, although he was not favorable to the political severance of the Ruhr from Germany. Molotov was noncommittal. Byrnes then proposed the immediate appointment of special deputies to consider questions of urgency before the June 15 meeting of the Council. Molotov evaded the issue and charged the British with secrecy in their Ruhr operations. Byrnes suggested that five questions be placed before the deputies:

1. What is to be done with the Ruhr and the Rhineland?
2. Are the resources left to Germany to be made available for Germany as a whole, and for exports to pay for essential imports?
3. Can agreed procedures be reached to effect economic unit in the next ninety days?
4. Can zonal boundaries be accepted only as delineating occupation areas?
5. Can tentative agreements be reached on the western boundary?

"After much fruitless discussion in two separate sessions it was evident that Molotov was not prepared to appoint special deputies to consider these questions or any questions concerning Germany. The Council adjourned on May 16 and the German problem was carried over to the June meeting.

"While nothing specific had developed, the discussions on Germany had proved valuable in indicating why agreement in Berlin to carry out the Potsdam Protocol had been so difficult. My attendance at the conference had given me the opportunity to explain to Byrnes the economic consequences which were already resulting from the severance of Germany into four independently operated areas, and to discuss these consequences with Connally and Vandenberg."1/

1/ Decision 125-26

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Intensified Planning in Washington and the Theater

Between the first and second parts of the Second Session of the CFM, both Washington and the theater reviewed intensively all phases of occupation policy. The War Department prepared for possible introduction in SWNCC a series of short-range and long-range policy studies on matters such as reparations, political structure, treatment of Germany as an economic unit and disposition of the Ruhr and the Rhineland. OMGUS was requested to contribute its views on these and other subjects for incorporation in the War Department papers.^{1/}

General Clay's views were embodied in his cable CG-5797 of 26 May 1946, cited above, which is reprinted almost in its entirety on page 73-78 of his Decision in Germany. This cable was supplemented by special reports on "Central German Agencies" and "Central German Government" which Gen Clay sent by air courier to Washington.

On 11 June Clay, at the suggestion of his governmental advisers, sent a cable suggesting the need for "the closest possible liaison and coordination between Washington and Berlin" on planning related to German governmental structure. At the same time he requested information on the organization for such planning in Washington and studies and programs that might be under way. In Berlin, Gen Clay explained, planning was conducted and coordinated by the Interdivisional Committee on German Governmental Structure under the chairmanship of the OMGUS Civil Administration Division with representatives of the Political Affairs, Legal, Public Finance and Economics Divisions and the Regional Government Coordinating Office. This Committee was also analyzing the draft Land constitutions, studying problems

^{1/} Cable, AGWAR signed WARGOS to USFET (Main), action transferred to OMGUS, WX 88917 of 23 May 1946, OMGUS TS Control 337 Council Foreign Ministers, KCRC. SECRET (downgraded from TS).

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of a future German federal government and working on German governmental structure for various possible zonal consolidations.^{1/}

Assistant Secretary of State Hilldring commented to Gen Echols: "The Department of State, I need hardly tell you, is in entire agreement with Gen Clay and sees great advantage in exchanging views at the working level." Gen Hilldring enclosed two State Department research papers and promised to send more.^{2/} Unfortunately the coordination between the State Department and OMGUS was allowed to lapse almost immediately, and the two agencies returned to their separate ways.

The War Department's recommendation on the Ruhr-Rhineland problem was made in a letter from Secretary Patterson to the Secretary of State on 11 June 1946. Because of the military potential of the Ruhr-Rhineland industrial concentration, Patterson indicated, the area "Should not be left under unrestricted control of Germany, Russia or France (or of all three) for a considerable number of years." To achieve the political and economic stability in Europe required for the security of the United States, the Ruhr-Rhineland area would have to remain in Germany and play its part in the production and exchange of wealth. The problem was to demilitarize the area while restoring its function in the peaceful economy of Germany and of Europe. Secretary Patterson suggested control arrangements that later could be transferred from the occupying powers to an appropriate United Nations agency and that would also permit, on evidence of Germany's future peaceful intentions, a larger degree of German control.

Economic progress in Germany, Secretary Patterson concluded, depended on solving the questions of central German agencies and of the Ruhr and Rhineland. Unless

^{1/} Cable, OMGUS to WD, CC 6734 of 11 June 1946, repeated in WAR 91460 of 15 June 46, CAD Numerical File, RG-122, DRB. SECRET

^{2/} Letter from Asst Sec of State Hilldring to Maj Gen Oliver P. Echols, Director CAD, 13 June 1946, WDSGA Decimal File 014 Germany. DRB

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four-power agreement on these could soon be reached, greater integration between the United States and British Zones should be explored. The Saar, however, did not seem to offer the same security problems as did the Ruhr-Rhineland; "any settlement of the Saar problem which you consider appropriate would be acceptable to the War Department." 1/

The Ruhr-Rhineland policy subsequently adopted by the Department of State and ultimately put into effect with the creation of the International Authority for the Ruhr in 1949 followed closely the recommendations of Gen Clay and Secretary Patterson. It was decided to sacrifice the Saar to France with the hope that the French, in return, would agree to establishment of German central agencies. On 13 June 1946 Gen Clay was notified that the Secretary of State had accepted as the official view of the United States Government, for presentation to the Council of Foreign Ministers, a large part of his recommendations as contained in CC5797. 2/ And on 29 June 1946 the War Department cabled governmental approval, in general terms, of the plan for central German agencies that had been submitted by OMGUS. 3/

The Offer to Merge Zones Economically is Made and Accepted by the British

On 11 July 1946 at the reconvened Second Session of the Council of Foreign Ministers, Secretary Byrnes made an extensive statement on US occupation policy, with particular emphasis on the problem of economic unity. The United States hoped that central administrative agencies could be established for all zones. But if

- 1/ Letter from Sec of War Robert P. Patterson to the Sec of State (prepared by Dean Rusk), 11 June 1946, OPD Decimal File 091 Germany, RG-115, DRB. CONFIDENTIAL
2/ Cable from WDSOA to OMGUS personal for Clay and McNarney, WARK 91139 of 13 June 1946, CAD Numerical File, RG-122, DRB. SECRET This cable requests Gen Clay not to discuss CC 5797 in a Press Conference, since the Sec of State feared that such previous discussion might reduce the force of his recommendations when presented in the CFM. This cable also informs Gen Clay that Sec Byrnes will probably ask him to come to Paris during the German discussions in the CFM.
3/ Cable, WDSOA to OMGUS, WARK 93082 of 29 June 1946, CAD Numerical File, RG-122 DRB. SECRET This cable notes that comments may be forthcoming on intergovernmental relationships and that a study is being prepared in Washington on possible constitutional provisions for a federal German government.

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this should prove impossible, then the United States was prepared to administer its zone in conjunction with any one or more of the other zones as an economic unit. Any arrangements for this purpose made with one government would be open on equal terms to the governments of the other zones at any time they might be prepared to participate. The British indicated they would consider the proposal, with which they hoped to agree. Neither the Soviets nor the French expressed any view.^{1/}

On 18 July 1946 cabled instructions were sent to Gen Clay to introduce the proposal for economic unification of two or more zones in the Control Council. These instructions provided that economic unification would be accompanied by establishment, for the zones concerned, of administrative agencies as provided for the Potsdam Protocol. If the offer should not be accepted by all representatives, the Military Governor was authorized and requested to commence negotiations at once with the occupation authorities of one or more other zones. So far as the French zone was concerned, the Saar Territory could be excluded from the unification. Finally, the OMGUS plan for central German agencies, which had been approved in Washington, could be used for agencies established on a bizonal or trizonal basis.^{2/}

Gen McNarney, the United States Military Governor, extended the invitation as directed at the Control Council's meeting of 20 July 1946. At the following meeting on 30 July, Gen Robertson accepted the invitation on behalf of the British. There followed rapidly the establishment of bipartite and bizonal agencies as described in the following chapter.

^{1/} Excerpts from radio report by Sec Byrnes, 15 July 1946, Dept of State Bulletin of 28 July 1946, reprinted in Occupation 223-24; Cable, from WDCSA to OMGUS personal for McNarney and Clay, WARK 94860 of 18 July 1946, CAD Numerical File, RG-122, DRB. SECRET. A paraphrase of this cable has been published in Decision 165-68.
^{2/} Cable WARK 94860, as cited in preceding note

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It was apparently the expectation in the Department of State that the French, having received their quid pro quo, would now participate in interzonal unification of Germany. Secretary Byrnes, in his radio report of 15 July 1946, said:

"The French Government, which had previously opposed the establishment of central administrative agencies, indicated their willingness to accept our proposal when we suggested that the Saar be excluded from the jurisdiction of these agencies. The British agreed."

Actually, Foreign Minister Bidault had proposed the establishment of central Allied agencies, a plan that the French delegation in the Control Council had introduced before and that Gen Clay had rejected as "a precedent for ... quadripartite government so that zonal boundaries would crystallize into national boundaries."^{1/}

Informal talks in Berlin indicated no change in French policy. At the Control Council meeting of 10 August, the French delegate presented a detailed proposal for Allied agencies with vaguely defined powers. This proposal was rejected flatly by the other three occupying powers.^{2/} In the meantime, the French shifted the focus of their argument from the economic status of the Saar, which had been conceded, to the alleged unreliability of the Germans in general. As the French deputy explained at the Control Council meeting of 29 August 1946:

"... the French Delegation considered that the time was not yet ripe for giving the Germans the entire responsibility for the functioning of the central administrative agencies to be organized for the implementation of the principle of economic unity. The Allies had their own policy, and the Germans would undoubtedly try to employ a different one ... The experience of the German occupation in France had permitted them to draw the conclusion that it was possible to deceive the most vigilant supervision by giving inaccurate bases for judgment to those who were carrying out the supervision."^{3/}

^{1/} Cable, OMGUS from Clay signed McNarney to AGWAR for WARCAD, CC 2626 of 5 April 1946, CAD Numerical File, RG-122, DRB. **SECRET**

^{2/} Cable, from OMGUS signed Clay to WD for WARCAD personal for Echols, CC 9232 of 18 July 1946, CAD Numerical File, RG-122, DRB. **SECRET**; Control Council papers: CONL/M(46)21, Appendices "A" and "B"; CONL/P(46)59, Appendices "A" and "B".

^{3/} Control Council Paper CONL/P(46)59, Appendix "B".

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Relations with the French were further ruffled by US rejection of a French request that Karlsruhe be transferred from the US to the French Zone. This proposal was to reappear in various forms throughout the occupation. It was always rejected flatly by US military authorities, and Washington followed their judgment.^{1/}

RESTATEMENT OF UNITED STATES OCCUPATION POLICY

Although during the fall of 1945 consideration had been given to revising JCS 1067/6, nothing had come of this project. In January 1946, OMGUS had agreed specifically to a policy of piecemeal and informal amendment.^{2/} The shifts in the general political situation, however, made a formal restatement of United States policy increasingly necessary.

Policy Making in the Department of State

Upon establishment of firm Allied control over Germany, the determination of occupation policy became a province of the Department of State except for specifically military questions, in which the War Department retained a voice. To strengthen the effectiveness of policy formation and transmission in the State Department, there was established, as of 8 April 1946, an Assistant Secretary of State for Occupied Areas. To this position was appointed Gen John H. Hilldring,

^{1/} Cables, WARK 94172 of 11 July 1946 from WARCOS to COMGENUSFET Infor OMGUS; S-7639 of 19 July 1946 from CG USFET signed McHarney to WD for WARCOS; CAD Numerical File, RG-122, DRB. SECRET
^{2/} Cable, OMGUS to WD, CC 21169 of 4 Jan 1946, CAD Numerical File, RG-122, DRB. SECRET

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until then the Director of the Civil Affairs Division of the War Department. Gen Hilldring brought with him a number of assistants from the CAD.

According to the official description of Gen Hilldring's functions in the Department of State, he was "in no sense responsible for the making of policy. It is his business to coordinate all State Department policy in regard to occupation matter." Policy emanated from the various geographic and functional desks, being coordinated by two secretariats responsible to Assistant Secretary Hilldring. These were the Germany-Austria Secretariat and the Japan-Korea Secretariat.^{1/}

Nevertheless, as Gen Hilldring himself admitted, he was more than a mere coordinator. Both Sec Byrnes and his successor Gen George C. Marshall held Hilldring ultimately responsible for occupation policy finally adopted. Gen Hilldring sometimes disagreed with the policies suggested by the geographical or functional desks, in which case the matter was negotiated until an agreement was reached.^{2/} As Assistant Secretary of State, Gen Hilldring had also assumed the chairmanship of the State-War-Navy Coordinating Committee.

As of June 1946, the SWNCC paper on "political problems," which the War Department had introduced on 10 April, was still pending. The State Department, however, obviously had its hands full with current diplomatic negotiations affecting Germany, and word was passed round in the War Department not to press too urgently for policy decisions.^{3/}

^{1/} American Policy in Occupied Areas, Washington, Department of State, 1947, p. 5

^{2/} Letter, from Gen John H. Hilldring to Mr. Dale Noble of the Brookings Institution, 29 Nov 1950, OCMH "Weinberg Files".

^{3/} Memorandum from Special Asstist to the Sec of War Dean Rusk to Assist Sec Petersen, 13 June 1946 and from Dean Rusk to Maj Gen O. P. Scholz, Director, CAD, 14 June 1946, WDSCA Decimal File 014 Germany, RG-122, DRB. SECRET

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Policy Controversy Between Washington and Berlin

While Secretary of State Byrnes was in Paris in July 1946, Gen Clay urged him to make an early public statement of United States policy that would counter-act Communist propaganda. It was agreed that Secretary Byrnes would make his speech on 6 September in the German city of Stuttgart to a mixed German and American audience.

After Secretary Byrnes had returned to Washington, Gen Clay sent to the Civil Affairs Division his own summary of United States policy and objectives in Germany. His covering letter explained that JCS 1067/6 and Potsdam were too bulky and legalistic and had been modified by interpretation, and that a summarized policy statement was needed for military government personnel and the public. Occupied Germany was busily discussing the Molotov statement delivered at the CFM, while US Military Government people had no ready-up-to-date summary of policy or objectives to use in discussions with Germans. Gen Echols was requested to clear the statement with the Department of State and cable back any changes required by Washington.

Gen Clay's summary was forwarded on 26 July to Gen Hilldring, who replied on 1 August that, while he had read the statement with "the greatest interest and admiration," the Department of State was working on the same problem. A comprehensive survey of policy was being prepared for use in the projected discussion of the Council of Foreign Ministers (to meet in New York in November 1946).^{1/} General

^{1/} Correspondence File on United States policy in Germany containing letter from Gen Clay to Gen Echols, enclosing summary, 19 July 1946; letter from Gen Schulgen, Acting Chief, CAD to Gen Hilldring, 26 July 1946; Memorandum from Gen Schulgen to Assist Sec of War, 26 July 1946, Letter from Gen Hilldring to Gen Echols, 1 August 1946; Letter from Assist Sec of War Petersen to Gen Clay, 5 Aug 1946; WDSCA Decimal File 014 Germany, RG-122, DRB.

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Hilldring's message was forwarded to Gen Clay by cable on 5 August with a recommendation that he should delay issuing his summary until the State Department's views had been made known to him. On the same day, Assistant Secretary of War Petersen wrote to Clay complimenting him on the statement but indicating that, because of its broad implications, such a statement should come from the Secretary of State. Gen Clay's paper would be of great value in preparing the policy statement, which, it was hoped, would not be too long delayed.^{1/}

Gen Clay's reply to the cable of 5 August was:

"... Since we are and have been operating under my summary of policy we must indeed be drifting if it does not in fact summarize our policy. It contains nothing except perhaps our stand on Ruhr and Rhineland which has not been published before. I did not send it back to obtain a revised policy but as the statement of policy under which we are operating now. We are really in a mess if we are unable without days of delay to give a summarized statement of policy to our own people or if we are operating at variance with United States policy. Unless instructed otherwise I propose to issue to Mil Govt personnel in one week as they have been promised such a summary otherwise I can only tell that we don't know what our policy is.^{2/}

In the meantime, the Department of State had established a temporary occupation policy committee under the direction of Gen Hilldring consisting of Riddleberger as chairman, and Mason, Galbraith and Leverick. The committee members were relieved of all other duties pending completion of their report, which was due on 15 September 1946. It was proposed that the committee would work in Washington until 16 August and then proceed to Berlin for two weeks of discussion of the

^{1/} Cable, WDSOA to OMGUS, Clay personal from Schulgen, WAR 96554 of 5 Aug 1946, CAD Numerical File, RG-122, DRB, SECRET; Letter, from Assist. Sect of War Howard C. Peterson to Lt. Gen Lucius D. Clay, 5 Aug 1946, CAD Decimal File 014 Germany, RG-122, DRB.

^{2/} Cable, OMGUS to War Department, CC 1378 of 7 Aug 1946, CAD Numerical File, RG-122, DRB. CONFIDENTIAL

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proposed comprehensive policy statement which the committee was expected to write. This news was cabled by the State Department on 7 August 1946, together with an outline of the proposed policy statement. Although Gen Clay presumably received this cable from Ambassador Murphy, he did not receive the same message through War Department channels until 12 August 1946.^{1/}

As has been mentioned before, Gen Clay had definite feelings about what appeared to be instructions when sent through State Department channels and presented to him by his political advisor. Even before the War Department message confirming the proposed visit of the committee had reached him, he received another cable from the War Department stating that although both the State and War Departments appreciated his need for a clear, summarized American statement and considered his summary effective and accurate, there were, nevertheless "certain parts which are difficult for this government to approve at this time." These involved subjects on which definite US policy had not yet been determined such as establishment of German provisional government and eventual admission of Germany to the United Nations, as well as statements on which present policy was being considered for possible revision. In the latter category were questions of German frontiers and possible economic internationalization of the Rhineland-Ruhr region. "In these circumstances" continued the cable, "we are fearful that issuance now of your summary statement might commit this government in a manner more binding than is desirable..." It was not intended to imply that Military Government had been operating at variance with US policy, but the statement would give publicity to certain elements of that policy not finally determined or currently under review. At the same

^{1/} State Dept Cable from Acting Sec to USPOLAD Berlin, 7 Aug 1946; Cable, WD to OIGUS, 97164 of 12 Aug 1946, WDSGA Decimal File 014 Germany, RG-122, DRB. CONFIDENTIAL

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time, deletions might imply changes that were not in fact intended. The cable concluded: "Therefore, you are requested to defer the issuance of policy statement until firm US policy is determined.^{1/}

To this, Gen Clay replied that OMGUS would be very glad to present a written recommendation on policy, but that it was not prepared to discuss recommendations on policy piecemeal with the committee. Such discussions, he believed, could only lead to misunderstanding and to misinterpretation of theater views. If theater recommendations were desired, a summarized statement would be sent to Washington before the visit of the committee. If, on the other hand, a recommended policy was not desired from Military Government, then the visit of the committee also appeared unnecessary. This message was shown to Gen Hilldring, who suggested that if Gen Clay preferred he could prepare his own draft for the discussion, which might take place in Washington rather than Berlin. The War Department added that it would welcome a comprehensive statement from Gen Clay in any case.^{2/}

There was a further exchange of letters and telegrams, in the course of which Gen Clay made it clear that OMGUS had not undertaken to recommend policy but had simply set down on paper its understanding of existing policy. After a discussion with Secretary Byrnes in Paris on 18 August, however, Gen Clay agreed to receive the State Department's policy committee, which arrived in Berlin on 26 August 1946.^{3/}

^{1/} Cable, WDSCA to OMGUS personal for Clay, WAR 97164 of 12 Aug 1946, WDSCA Decimal File 014 Germany, RG-122, DRB. SECRET

^{2/} Cables; OMGUS signed Clay to WD for WDSCA, CC 1731 of 13 Aug 1946; WDSCA GO to OMGUS, Clay personal from Schulgen, WAR 97486 of 14 Aug 1946; WDSCA GO to OMGUS, WAR 97717 of 16 Aug 1946, CAD Numerical File, RG 122, DRB. SECRET

^{3/} Letter, Gen Clay to Sec Patterson, 16 Aug 1946; Cables: OMGUS signed Clay to WD for WDSCA, CC 2060 of 19 Aug 1946; OMGUS signed Clay to WD for WDSCA, CC 2183 of 20 Aug 1946; WDSCA GO to OMGUS personal for Clay, WAR 98253 of 22 Aug 1946; CAD Decimal File 014 Germany, RG-122, DRB. SECRET

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Secretary Byrnes' Stuttgart Speech

Neither Gen Clay's summary of 19 July nor the draft developed by the State Department committee ever saw the light as an official policy statement. The majority of the principles contained in Gen Clay's summary, however, found their way with very little change in content and often in Gen Clay's own words into the speech that Secretary of State Byrnes delivered at Stuttgart on 6 September 1946.

The content of Secretary Byrnes Stuttgart speech will not be discussed in detail here; the speech itself is easily available.^{1/} As the present study is concerned with sources of policy, however, a comparison will be made between the main points in the speech and the parallel provisions of Gen Clay's summary.

The first major point made by Secretary Byrnes at Stuttgart was that the United States was fully committed to executing the Potsdam Agreement on demilitarization and reparations. This, however, would be possible only if the rest of the Potsdam Agreement were likewise put into effect, namely the treatment of Germany as an economic unit with a balanced economy. The Secretary explained at some length the need for treating Germany as a unit and the US principle that zones should exist for security purposes only and not as self-contained economic or political units. Secretary Byrnes' remarks on both subjects were essentially an amplification of Gen Clay's summary, with no change in effective meaning. The Secretary's further statement that "if complete unification cannot be secured, we shall do everything in our power to secure the maximum possible unification," reflected a policy that had been recommended by Gen Clay but had not been repeated officially to Military Government when the summary was written.

^{1/} The original publication was in the Department of State Bulletin of 15 Sept 1946, pp. 496-501, also Dept of State Publication 2616, European Series 13. Extensive excerpts appear in Decade, 522-527. Excerpts arranged by subject matter appear in Occupation of Germany, Policy and Progress, 1945-46, Washington, Department of State, August 1947.

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The explanation given by Secretary Byrnes on the need for the various German central agencies was an expansion of Gen Clay's statement. The paragraph on financial policy is practically as Gen Clay wrote it. The sections of Secretary Byrnes' speech on the steps toward establishment of a German central government and the nature of that government follow closely Gen Clay's proposal. The only significant difference in this section is that where Gen Clay listed seven "minimum essentials of democracy," the Secretary merely indicated that the Allies would "lay down the rules under which German democracy can govern itself." On the subject of future levels of industry, Secretary Byrnes was not quite as specific as Gen Clay in distinguishing interim from long-term policy.

The only significant difference in content between the summary and the speech was on the question of German eastern boundaries. While Gen Clay's draft was apparently based on the belief that the United States would support a final Polish-German border following in general the provisional boundary, Secretary Byrnes made it quite plain that the United States did not consider itself committed to this frontier, which had been established for administrative purposes only.

As Gen Clay points out, Secretary Byrnes visited him in Berlin, where the Secretary and the Gen reviewed the speech prior to delivery.^{1/} After the speech Gen Clay remarked to one of his advisers: "At least we have a workable policy for Germany."

^{1/} Decision, 79-81.

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Chapter 8

MAJOR POLICIES OF THE BIZONAL PERIOD

THE STUTTGART SPEECH LEADS TO RECONSIDERATION OF BASIC POLICY

The speech made by Secretary Byrnes at Stuttgart on 6 September 1946 was a turning point in American occupation policy. It was more than an interpretation of JCS 1067/6: it was an outright departure from that document. This was recognized in the War Department. At the next meeting of SWNCC, Assistant Secretary Howard C. Petersen recommended immediate revision of JCS 1067/6 which, he pointed out, had been superseded by Potsdam, the Stuttgart speech, and various amendments to JCS 1067/6 itself. Although Gen Hilldring questioned the need for immediate revision, since forthcoming discussions in the Council of Foreign Ministers might produce further changes in any case, Gen Clay was quoted as favoring amendment, and it was agreed that the Assistant Secretary of War would ask for his views. The following cable was sent:

"SWNCC considering revision JCS 1067 series with object combining in one document 1067, as changed by Potsdam, subsequent amendments, Byrnes' Stuttgart speech and any currently recommended proposals for change. Considerable opinion here that directive should be positive in character and include full statement of US policy sufficiently broad to cover all operational requirements. Your views would be appreciated."1

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1. CAD Report of Action at 48th Meeting, SWNCC, 11 Sept 46 by Daniel C. Fahey, Chief Planning Branch, WDSOA Decimal File 334 SWNCC, DRB; Cable, WDSOA GO to USFET, info OMCUS, WAXX 80338 of 13 Sept 46, CAD Numerical File, RG 122, DRB. CONFIDENTIAL

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This cable brought an immediate and enthusiastic response from OMGUS. As Henry Parkman, the Director of OMGUS Civil Administration Division, commented, the initiative taken by Washington "opens up a real opportunity for this headquarters to advance definite views with respect to a revision of JCS 1067." Parkman urged that the revision emphasize positive policy, using Byrnes' Stuttgart speech as far as it went: a draft of necessary additional provisions could be provided by OMGUS.¹

Gen Clay's reply to the War Department agreed that the JCS 1067 series should be revised into a new policy statement of positive character. It should be short and concise without attempting to cover all operational requirements. Clay suggested that the Stuttgart speech serve as a basis for the new directive. His own views had been expressed in his policy summary of 19 July, except as certain statements, particularly on boundaries, had been clarified by the Secretary's speech.

Gen Clay went on to suggest that the basic directive be a short policy statement on general principles which could be furnished to military government personnel. A second but separate statement could give the justification for US policy. If each paragraph in the policy statement were numbered, implementing directives could be issued in series for each subject. Then detailed interpretation of policy could be modified by subordinate directives without change in the basic document. Finally, the directive should cover certain subjects not mentioned by Secretary

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1. Memo, Brig Gen Henry Parkman, Director of OMGUS Civil Administration Division, to OMGUS Chief of Staff, 16 Sept 46, OMGUS JCS 1067 File, KCRG. RESTRICTED (downgraded from CONFIDENTIAL)

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Byrnes at Stuttgart such as external assets, internal restitution, freedom of speech, press and radio, uniform treatment for German agriculture, trials of war criminals, breakup of excessive economic concentrations, relaxation of restrictions limiting external trade, and redistribution of land to aid resettlement of expellees. If desired, OMGUS would gladly send representatives to Washington to express its views.¹

The importance of the Stuttgart speech in pointing a new direction in American policy was underlined in the instructions provided by the State Department for military government information media in Germany. While these "guidances" sent out from time to time were not themselves policy statements, they were interpretations that affected the implementation of policy within the theater. They were used by the OMGUS Information Control Division in reviewing public statements to be made by Military Government officials, and they also formed the basis of editorials in the Neue Zeitung and OMGUS radio commentaries from which many Germans drew conclusions as to the intentions of military government. The guidance cabled on 17 September 1946 indicated that the Stuttgart speech was a "key document of US policy" and that it was essential that the German people understand it. The essence of the "United States program for Germany's rehabilitation" was summed up as follows:

"a. On economic side, US holds that prevailing hardships are essentially inevitable consequence of policies of Nazi regime and its defeat. But we want to see these hardships lessened (rather than aggravated or

1. Cable, OMGUS signed Clay to WD for WDSGA, CC 3769 of 16 Sept 46, CAD Numerical File, RG 122, DRB. CONFIDENTIAL

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1. Cable, OMGUS signed Clay to WD for WDSOA, CC 3769 of 16 Sept 46, CAD Numerical File, RG 122, DRB. CONFIDENTIAL

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perpetuated) through establishment of conditions which will permit Germany to improve her standard of living through hard work and ultimately to achieve self-supporting balanced economy.

"b. On political side, US considers present status of Germany, with lack of German government, as provisional condition. US is aware of ill-effects of domination of Germany by "armies of alien soldiers and alien bureaucrats," although it realizes its present necessity. US thinks that the time has come for Germans to prepare for establishment of central government of their own, "under proper safeguards." It favors "early establishment of provisional German government," viz "German National Council," to function under supervision of Allied Control Council, and to be composed of government heads of various German states or provinces. This provisional government should in time be replaced by elected body."

American media, the guidance concluded, should stress the ultimate intention to restore Germany to the community of civilized nations. The United States would advance the principles stated in the Byrnes speech in negotiations with other powers so that Germany would be kept from becoming "a pawn or satellite in the military struggle for power between the East and West." Although the Secretary had referred briefly to the "struggle" in his speech, its existence was now assumed for the first time as a main point of reference in military government political practice.

On 21 September 1946 the Civil Affairs Division cabled to OMGUS that preliminary work on revision of the JCS 1067 series had started. A month later OMGUS was notified that work had progressed to a point at which consultation with OMGUS representatives was desired before consideration by the SWNCC Committee on Revision of Policy Papers. It was suggested that top OMGUS officials arrive in Washington by 1 November 1946 to stay for at least two weeks. As Gen Clay was due to arrive in Washington in November for bizonal unification talks, he decided to

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participate personally in the discussions on the revised JCS 1067 series.¹ Although talks were held on the proposed revision, and comments made by Gen Clay on both the War and State Department drafts, no final conclusions were reached. Another six months were to elapse, and US political policy was to undergo a basic reorientation in the wake of the fruitless Foreign Ministers' conference at Moscow, before the revised directive superseding JCS 1067/6 was finally issued.²

DEVELOPMENTS IN THE FIELD OF GOVERNMENTAL STRUCTURES

Organization of the Initial Bizonal Machinery

As soon as the British Government had agreed to merge its zone of Germany with the US Zone, Generals Clay and Robertson began to plan for the merger. On 9 August 1946 it was agreed to establish, as the highest Military Government organ for the Bizone, a Bipartite Board consisting of the two Deputy Military Governors. The Board had a Bipartite Secretariat. It was supplemented by six bipartite panels in the various economic fields meeting in Berlin and six bipartite control groups to be located adjacent to and to supervise the corresponding German administrative agencies. The latter were created by agreements between the Ministers-President of the US Zone and the functional zonal agencies of the British Zone. Each agency was managed by an executive committee or joint committee consisting

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1. Cables: CAD to OMGUS, WARX 81147 of 21 Sept 46 and WAR 83559 of 21 Oct 46; OMGUS to WDSCA, CC 6751 of 31 Oct 46; CAD Numerical File, RG 122, DRB. CONFIDENTIAL
 2. Telegram, Gen Echols to Gen Clay (in N.Y.), WAR 35498 of 9 Dec 46, WDSCA Decimal File 008, RG 122, DRB.

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of the appropriate ministers of the Laender. Each committee elected an additional member to serve as chairman and director of the agency. Juridically, these bizonal agencies were clearly creatures of Military Government and were charged with executing Allied rather than German policy. For the British Zone, the members of the committees were appointed by Military Government, rather than by the Ministers-President.¹

There were differing opinions within OMGUS concerning the location of the bizonal agencies. It was argued that for the sake of efficiency they should be brought together in a single city, such as Frankfurt. Gen Clay, however, wished to avoid seeming to create a West German capital, as this might prejudice whatever chances remained for all-German unification, and Gen Robertson agreed. The bizonal agencies were, accordingly, located as follows: Economics at Minden, Food and Agriculture at Stuttgart, Transport at Bielefeld, and Communications, Finance and Civil Service at Frankfurt. Organizational arrangements were completed by 17 September 1946.²

The plans for the bizonal organization appear to have developed entirely in the theater. Gen Clay's instructions to the OMGUS Committee

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1. The Evolution of Bizonal Organization, OMGUS Civil Administration Division, March 1948, pp 2-3 and Appendix I (Preliminary Agreement on the Establishment of a German Economics Administration); Edward H. Litchfield, "Emergence of German Government," Chapter 2 in Governing, pp 28-29. The reasons for the difference in practice between the US and British Zones are discussed later in this chapter under "Revision of Bizonal Organization and Economic Arrangements."
 2. Decision, pp 168-69, Governing, p 29

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on Bizonal Organization were reported to Washington on 2 August 1946. These were to the effect that the economic integration of the zones would avoid any implication of political integration, and that the position and powers of the Laenderrat in the US Zone would be fully preserved. There would be no overall interzonal German Council, and the economic agencies would be scattered in two or more cities in the US and British Zones.¹

In the records searched, no indication was found of any comments on these principles by Washington, nor any suggestions given by either the State or War Department to Gen Clay how the Bipartite Military Government agencies or the Bizonal German administrations should be organized. The only exception was a War Department inquiry whether a Bizonal manpower agency was to be established to deal with wages, labor allocation, manpower and social insurance. To this, OMGUS replied that such an agency was not considered because of the political nature of labor relations and trade unions.²

As Gen Clay points out, the loose initial Bizonal organization was cumbersome and inefficient. As it was still hoped, however, to achieve economic unity of all four zones in the Control Council, "this

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1. State Dept cable No. 1875, USPOLAD Berlin to Sec State, 2 Aug 46, CAD Numerical File, RG 122, DRB. CONFIDENTIAL
 2. Cable, OMGUS to WD, CC 7228 of 4 Sept 46, CAD Numerical File, RG 122, DRB. RESTRICTED

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first step represented the extent to which we felt we could proceed without jeopardising our efforts to secure quadripartite control.¹

Approval of Land Constitutions for the US Zone

Early in 1946, Gen Clay had issued a directive providing for the preparation and approval of Land (state) constitutions and the subsequent election of Land assemblies. This action had been in accordance with Article II, paragraph 9(iii), of the Potsdam Protocol,² but otherwise had not been the subject of guidance from Washington. The constitutions had been drafted by preparatory commissions appointed by the Ministers-President at the direction of OMGUS. After preliminary review, the drafts were laid before constitutional conventions, which had been elected by popular vote on 30 June, and which were charged with completing the constitutions by 15 September 1946.³ As that date approached, the constitutions became the subject of considerable correspondence between the War Department and the theater.

As provided in the OMGUS directive, each Land constitution had to have specific approval of Military Government before being submitted for

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1. Decision, p 168
 2. "... representative and elective principles shall be introduced into regional, provincial and state (Land) administration as rapidly as may be justified by the successful application of these principles in local self-government." Decade 37, Story in Documents 49.
 3. Directive, OMGUS, 4 Feb 46, "Elections in the US Zone," reprinted Occupation 119-121.

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popular ratification.¹ While the formal approval was to be given by Gen Clay as Deputy Military Governor, it was understood that this approval would be given in close consultation with the War and State Departments.

As the various drafts were forwarded to Washington, it became apparent that the Department of State was disposed to comment in more detail than OMGUS felt desirable. As a part of the program of introducing democracy in Germany, Gen Clay and his advisors felt it important that the constitutions be developed by the Germans themselves in an atmosphere free from Military Government direction or interference. As Gen Clay pointed out:

"We have told the German authorities of the basic principles which we consider necessary to a democratic constitution and these principles have been furnished to you and to the State Department. As long as these principles are safeguarded in the Constitution, we do not propose to comment on the details or on the governmental procedures established in the Constitutions. Manifestly, we will require some recognition of the authority of occupational government and some provision for the State Constitutions to conform to a National Constitution if and when such a Constitution is drafted. However, it is of utmost importance that comment and suggested changes given to the constitutional assemblies be at a minimum and limited to violations of the fundamental principles which have been laid out. These Constitutions must go to the German people as a free creation of their elected representatives and with the least possible taint of Military Government dictation. We have every confidence that the Constitution thus prepared will meet the requirements of democracy and will be recognized by the German people as the creation of their own representatives."²

1. Litchfield (Governing 35) points out that although the Land constitutional governments came into being under the control of Military Government, they were in no sense agents of Military Government but politically and legally German institutions.
2. Cable, OMGUS signed Clay to AGWAR for WDSOA GO, CC 2418 of 23 Aug 46, OMGUS Civil Administration Division File OLO Constitutions (general), KCRC. CONFIDENTIAL

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The Department of State recognized Gen Clay's point that the constitutions should be developed with a minimum of military government interference. Thereafter, its comments were limited to general suggestions, which OMGUS found "both helpful and consistent with views of this headquarters."¹

As the final deadline for approval approached, however, the Department of State, seconded by the War Department, insisted very strongly on certain changes, particularly in the Bavarian Constitution, which the constitutional conventions were unwilling to make voluntarily. If OMGUS should order the changes by decree, this might destroy the entire enthusiasm of the German politicians and public for the constitutions, which were accepted as the work of the German assemblies. It seemed uncertain whether Washington or the theater really had the final authority to approve the constitutions, and Gen Clay cabled urgently requesting that the State and War Departments recede from their demands.²

Gen Clay's position was seconded strongly by Assistant Secretary Petersen who was visiting in Berlin and who cabled the Secretary of War requesting that, should the State Department insist on decreeing any changes in the constitutions, the matter be taken up directly with the President. The issue was settled, however, by a final cable to Gen Clay stating:

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1. Cables: AGWAR from WDSOA GO to OMGUS, WAR 99509 of 5 Sep 46, OMGUS Civil Administration Division Decimal File 010 Constitutions, (general), KCRC; OMGUS signed Clay to WD for WDSOA GO, CC 3323 of 8 Sep 46, CAD Numerical File, DRB.
 2. Cable, OMGUS personal from Clay to AGWAR for WDSOA personal for Echols, CC 5554 of 15 Oct 46, OMGUS Civil Administration Division File 010 Constitution (Greater Hesse), KCRC. CONFIDENTIAL

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"It is recognized that you and your advisors are in peculiar and advantageous position to determine best method handling situation and War and State willing to leave final decision your hands."¹

The way found around the dilemma was to approve the constitutions with reservations. The letters written by Gen Clay to the Presidents of the Constitutional Assemblies of Bavaria, Greater Hesse, and Wurttemberg-Baden constituted Military Government directives modifying the constitutions and became, in an indirect sense, parts of German constitutional law.²

A bothersome problem that came up the first time in connection with the Hesse Constitution was the issue of socialization. There were diverging opinions whether Military Government should actively oppose socialism, but Gen Clay was sure that he did not wish to be in the position of actively supporting it. Article 41 of the Hesse draft provided that heavy industry, banking, and insurance within the Land should be socialized. At the initiative of OMGUS, the Constitutional Assembly was prevailed upon to make the provision permissive rather than mandatory and

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1. Cables: OMGUS personal from Petersen to AGWAR for WARSEC personal for Rusk, CC 5536 of 14 Oct 46, OMGUS AG 010.1 Constitutional Assemblies, KCRC; WDSOA GO to OMGUS, WAFX 83349 (undated copy), OMGUS Civil Administration Division File 010 Constitution (Greater Hesse), KCRC. CONFIDENTIAL
 2. The constitutions and letters of approval are reprinted in Constitutions of the German Laender, OMGUS Civil Administration Division 1947. For a discussion of governmental structure under these constitutions, see Roger H. Wells, "State Government," Chapter 4 in Governing, pp 102-109.

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even then, Gen Clay insisted that this provision be voted upon separately.¹

Later, when Gen Clay was in Washington, a policy on socialization was developed which was summarized by the Secretary of State as follows: "We have not expressed any opposition to the socialization of industries in Germany if the Germans themselves wish to socialize their industries through democratic processes." In connection with socialization proposals in Berlin, this policy was expanded to provide that the United States would oppose nationalization of industry that would concentrate the entire German economy in the hands of a future central German government. Socialization by the Laender or lower units of government could, however, strengthen economic and political decentralization and federal development. The United States would in any case wish to assure that such socialization as might be adopted should take place through democratic processes and not in a sudden or unplanned manner.²

1. Since socialist strength in Hesse indicated practically certain passage of Article 41, the value of this move may be questioned. Later, the socialists used the fact of a separate vote as an argument for implementing the measure. In September 1948 a controversy reminiscent of the constitutional arguments arose when US Military Government suspended the operation of the economic codetermination provisions of laws in Hesse and Wurttemberg-Baden (Mitbestimmungsrecht) on the stated grounds that future unity would be jeopardized if each Land were permitted to incorporate codetermination by passing its own works council legislation prior to the establishment of a central government in the west. The suspension was revoked in April 1950 by the US High Commissioner. Taylor Cole in Governing, pp 373-74.
2. Cable, WD to OMGIUS, WAR 86579 of Nov 29, 46, unnumbered cable of Dec 46 in OPD 091 Germany, RG 115, DRB. SECRET

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During the fall of 1946 a legal determination concerning the powers of US Military Government was made, which is noted here because of its general import. On 30 September OMGUS raised the question whether, in view of the assumption of supreme authority in Germany by the commanders of the four occupying powers, Military Government was bound by the regulations annexed to the Hague Convention of 1907 and Geneva Prisoners of War Convention of 1929. After some delay, the War and State Departments agreed that the legal authority of the Allied Control Council and of the US Zone Commander was not limited by the regulations attached to the Hague Convention but that it was US policy to observe such regulations unless specific US occupation policies should require deviation. The Geneva Convention, on the other hand, was held applicable to all persons having the legal status of prisoners of war.¹

ADOPTION OF A CURRENCY REFORM POLICY

The wide latitude given to Gen Clay in the field of government was not duplicated with respect to economic or financial policy. Because economic measures were directly related to the national budgets of the occupying powers, it was natural that many economic questions should be decided and negotiated on the governmental level. In the field of monetary policy, however, there was for a considerable time a "policy

1. Cables; OMGUS to WARCAD, CC 4599 of 30 Sep and CC 6860 of 5 Nov 46; WDSGA GO to OMGUS, WAR 88419 of 26 Dec 46; CAD Numerical File, RG-122, DRB. CONFIDENTIAL

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blockade" occasioned by the fact that Washington neither accepted the theater recommendations nor offered alternatives of its own.

Early in the occupation, Military Government recognized that the financial chaos caused by German wartime inflation and aggravated by the injection of billions of Allied military marks into the German economy had to be eliminated before substantial economic recovery could be expected. Director Joseph M. Dodge of the OMGUS Finance Division, who had succeeded Col Bernard Bernstein of the Treasury Department on 12 Sep 45, urged the need for currency reform and made the recommendation, seconded by Gen Clay, that the Treasury supply experts who would study the problem as temporary members of OMGUS. The Treasury, however, refused to supply personnel unless they reported to the Treasury and were subject to direct Treasury instructions and guidance.

Arrangements were then made for an exhaustive study of the German currency problem by a study group consisting of Dodge, Dr. Gerhardt Colm and Raymond Goldsmith. The Colm-Dodge-Goldsmith report was submitted to Gen Clay on 20 May 1946, with the deliberately chosen title: "Plan for the Financial Rehabilitation of Germany". Its objective was "to clear the way for the internal financing necessary for the peacetime reconstruction permitted under the terms of the Potsdam Agreement and the decisions of the Allied Control Council."¹

1. Ltr transmittal signed by Messrs. Colm, Dodge and Goldsmith, OMGUS AG File 100, Finance and Accounting, KCRC.

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The report stressed that economic recovery required a sound financial structure, which had to be provided by Military Government since there was no German government capable of carrying out a financial reform. The principal measures advocated by Colm, Dodge and Goldsmith were:

1. A new currency to replace the Reichsmark, existing monetary claims and obligations being deflated at a ratio of ten Reichsmark to one new mark. The Reich debt would be cancelled and a new debt issue allocated to banks, insurance companies and other financial institutions so they could meet their reduced obligations.

2. Mortgages to be imposed on real estate, plant equipment and inventories to 50 per cent of value. The proceeds of the mortgages, paid in installments, would be used to compensate people who had suffered losses from the war and from reduction of monetary claims.

3. A progressive capital levy on individual net worth after steps 1 and 2, with rates ranging from 10 to 90 per cent depending on total wealth and its increase during the war years.

The report also recommended the limitation of occupation costs, a central agency to issue and control currency, and an exchange rate of 25 cents for the new mark.¹

1. Report, "A Plan for the Liquidation of War Finance and the Financial Rehabilitation of Germany", 20 May 46, Office of Military Government for Germany (US), duplicated, CAD Files, DFB.

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It was Gen Clay's hope that the Colm-Dodge-Goldsmith report could be approved as a basis for US policy before the June 1946 meeting of the Council of Foreign Ministers, because "common currency control is one of the major problems in treatment of Germany as an economic unit and is almost certain to arise in any extended discussion of the German problem". The plan ran into delays, however, in the State-War-Navy Coordinating Committee, which in early July approved step 1 but raised a number of questions on steps 2 and 3.¹

Gen Clay made clear his belief that a mere reduction of the volume of currency, claims and obligations without an equalization of burdens would not accomplish the fiscal reform necessary to prevent inflation. The War Department then suggested that SWNCC might be willing to approve step 2 with a property tax substituted for the proposed mortgage. Gen Clay was asked to give his comments and was authorized to discuss points 2 and 3 of the plan in the Allied Control Council, notwithstanding that they had not been approved in Washington.²

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1. Cables: OMGUS personal from Clay to AGWAR personal for Echols, CC 5635 of 24 May 46, CONFIDENTIAL; AGWAR to OMGUS, WAR 93573 of 5 Jul 46, SECRET; CAD Numerical File, RG-122, DRB.
 2. Cables, OMGUS from Bennett signed Clay to AGWAR personal for Echols, CC 8563 (WD CM IN 1598 of 9 Jul 46, CONFIDENTIAL); JCS to OMGUS for Clay, WAR 96204 of 1 Aug 46; OMGUS signed Clay to AGWAR to WDSOA personal for Echols, CC 1199 (WD CM IN 814 of 4 Aug 46), SECRET; WDSOA ES to OMGUS, WAR 97826 of 17 Aug 46, SECRET; CAD Numerical File, RG-122, DRB.

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Gen Clay replied that Military Government had already made its recommendations, which had been discussed informally with each of the other occupying powers. He did not consider it feasible to enter quadripartite talks on fiscal reform without "a firm and detailed program to be supported vigorously against all other proposals with the end in view of reaching a compromise which would not violate the basic character of our proposal". Since Washington had not approved the program recommended by Military Government, it was up to Washington to provide a program. Two days later, Gen Clay warned that the British would not wait further and were about to introduce their own currency reform program in the Allied Control Authority. This cable, however, crossed a cable from the War Department to Gen Clay announcing that the Secretaries of State, War and Navy had unanimously approved the Colm-Dodge-Goldsmith plan the morning of 21 August 1946.¹

Although the British were fully convinced that bizonal unification would produce only limited results without financial reform, it was still hoped that agreement on currency reform for all zones of Germany could be secured in the Control Council. Accordingly, Gen Clay introduced the Colm-Dodge-Goldsmith plan on 28 August 1946 in the Coordinating Committee of the Allied Control Authority, which referred the plan to the Finance Directorate. Later in the year, however, the Departments of State and War were obliged once more to consider the

1. Cables: OMGUS signed Clay to WD for WISCA, CC 2310 of 22 Aug 46 (Berlin time), CONFIDENTIAL; WISCA ES to OMGUS, WAR 98110 of 21 Aug 46 (2242 Greenwich time), SECRET; CAD Numerical File, RG-122, DRB.

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problem of currency reform, since US papers designed to accomplish that objective met with such opposition on all levels of the Allied Control Authority that the Control Council finally removed this topic from its agenda and referred the problem back to the Allied Governments.¹

ECONOMIC PROBLEMS OF THE BIZONAL PERIOD

Problems and Policies in the US Zone

When bizonal unification was agreed upon during the summer of 1946, OMGUS was still wrestling with the food problem. This had two facets. One was the question whether food would be available at all: claims for Germany had to be presented in competition with those of liberated countries before the Combined Food Board and its successor, the International Emergency Food Council.² Since these agencies made their allocations on rather short notice, it was impossible to plan very far ahead. The other phase was the budgetary situation in Washington which caused continuing uncertainty whether the food could be paid for if obtained.

The cables from Washington to the theater dealing with the procurement and financing of food presented a kaleidoscopic frame of reference within which Military Government had to operate. In June 1946, for

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1. Memorandum, Jack Bennett, Director of OMGUS Finance Division to Chief of Staff, OMGUS, 4 Nov 46, OMGUS AG File 100, Finance and Accounting, KCRG. CONFIDENTIAL
 2. For membership and frame of reference of the International Emergency Food Council see International Conferences, 1 Jul 45-30 Jun 46, pp 6-8; Ibid, 1 Jul 46-30 Jun 47, pp 86-90.

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example, OMGUS was directed to calculate the German food import requirements for the period beginning 1 July 1947 on the basis of 1,840 calories per day for the normal consumer. The War Department indicated that it would probably ship 165,000 tons of wheat in July and August 1946, although a threatened maritime strike might upset all calculations.¹ On 14 July, however, the War Department notified OMGUS that the budget for feeding German civilians and displaced persons for the year beginning 1 July 1946 had been reduced from a requested \$167,000,000 to only \$85,700,000, which according to OMGUS computations would support a normal consumer ration of only 1,300 calories per day. This ration, Gen Clay cabled, "is of course inadequate to meet minimum ration requirements and mass deterioration of the German people already becoming evident will certainly be serious."² Fortunately the 1946 harvest provided an average yield and, with imports, it was possible for the United States zone to reach the ration of 1550 calories per day in October.

During the fall of 1946 the War Department was called upon to answer various specific questions in the field of economics. The answers had in some cases the effect of further piecemeal amendment of JCS 1007/4, while in other cases the theater commander was given additional authority to determine his own policies and procedures.

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1. Cables: WARCAD to OMGUS, WARK 90205 of 4 Jun 46, RESTRICTED; WD to OMGUS, personal for Clay signed Echols, WARK 90825 of 10 Jun 46, CONFIDENTIAL; CAD Numerical File, RG 122, DRB.
 2. Cable, OMGUS signed Clay to WD for WDSCA, CC 9777 of 26 Jul 46, CAD Numerical File, DRB. SECRET

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The JCS 1067/6 provision requiring individual Washington approval of German exports to neutral countries proved bothersome, particularly in dealings with Sweden and Switzerland. In July 1946 the delays in the clearance of exports to Sweden caused the Swedish Government to retaliate by refusing export licenses for critical materials needed in the US Zone.¹ There was also an increasing volume of paper work in clearing the numerous small orders which German firms began to receive from Switzerland. Although there is no indication that OMGUS made a specific request for modification of the directive, the requirement for Washington approval of individual exports to Sweden and Switzerland was lifted on 16 August 1946.²

Another problem involved the deposit of export proceeds so as to protect against possible losses and at the same time to have the funds readily available to pay for German imports. While OMGUS had authority to purchase for dollars foreign currencies needed for current buying, the War Department warned against such conversion in advance of need, which might lead to losses should the foreign currencies fall in value. Funds not converted were maintained in a trust account in the United States, but this procedure proved cumbersome because the current status of the fund was not always reported promptly to OMGUS. As the reduced appropriation for German imports left a narrow operating

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1. Cable, OMGUS signed Clay to WD for WARGAD attention Bullock, CC 9126 of 17 Jul 46, CAD Numerical File, RG-122, DRB. CONFIDENTIAL
 2. Cable, CAD to OMGUS, (number not indicated) 16 Aug 46, WDSOA Numerical File 091.31, Section V, RG 122, DRB. RESTRICTED

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margin, Gen Clay insisted upon procedures enabling OMGUS to draw rapidly on export receipts, both in the United States and in European countries. After considerable correspondence, a method accomplishing this objective was worked out.¹

Another subject on which the War Department and OMGUS agreed on arrangements was the admission of foreign businessmen to Germany as buyers for export. A Treasury license under the Trading with the Enemy Act permitted American businessmen to enter Germany and to procure goods and services for their own immediate needs from Germans. They were also authorized to make preliminary arrangements for export contracts directly with the German suppliers, but the contracts themselves had to be made through the Joint Export-Import Agency, which became the exclusive seller of German goods to foreign countries.

Bizonal Pooling of Import Costs and Export Proceeds

Since the British had proposed terminating the original US/UK agreement on pooling export proceeds on 31 March 1946, the status of that agreement had been somewhat uncertain. Problems of sharing export proceeds and costs of imports for the two zones had been discussed at government level, but when bizonal fusion was agreed to at the end of July 1946 no conclusion had been reached. Although the US and British Governments sent their zone commanders identical instructions for

1. Cables: WDSGA to OMGUS, WARK 95397 of 24 Jul 46, CONFIDENTIAL; WARK 99185 of 31 Aug 46, SECRET; CG 4072 of 20 Sep 46; CAD Numerical File, RG 122, DRB.

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estimating food requirements on 2 July 1946, these instructions left open the question whether there would be pooling of food supplies between the two zones or with the French zone.¹

The divergent United States and British views on the financing of German import requirements, as outlined by Gen Clay, were as follows:

"We wished the proportion to be based on population in view of the lower population in the American Zone, whereas the British insisted on at least an equal arrangement and even urged that the United States bear 60 per cent of the burden.

"There were valid arguments on both sides. The United States Zone had a greater agricultural production and required fewer imports per capita than the British Zone. Hence, even in accepting a responsibility proportioned on a population basis, the merger would result in adding to our financial burden as the per capita requirement was increased. On the other hand, the great industrial area in the British Zone had to have food to produce the exports which would bring both zones to self-sufficiency."²

As United States and British Military Government in Berlin were unable to agree on the pooling of export proceeds and the sharing of import costs, Gen Clay wrote on 16 July 1946 to Gen Echols, Director of CAD, asking him to take the matter up with the State Department. The reply given by the State Department, as repeated by Gen Echols to Gen Clay in a letter on 11 September, was as follows:

"The State Department would rather let this problem resolve itself in Germany in the negotiations to bring about an economic merger of the British and American zones. However, if you prefer for them to intervene on some specific points they are willing to do so. We have been informed by State Department that the British Embassy in Washington is of the opinion that the pooling arrangement will become a matter for governmental consideration in due time."

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1. Cable, WDSKA to OMNUS, WARK 93164 of 1 Jul 46, CAD Numerical File, RG-122, DRB. SECRET
 2. Decision 170

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To this, Gen Echols added in a postscript that he did not feel that the reply to Gen Clay's letter was satisfactory.¹

The problem of pooling and sharing did not, however, resolve itself in Berlin. Because British officials there doubtless were aware of London's view that the question should be settled directly between the two governments, they were under no great pressure to reach an agreement. Although the two military governments did reach agreement on most of the questions of bizonal organization and economic policy, this one key problem remained unsettled, rendered impossible the adoption of a firm Bizonal budget, and hampered economic progress.²

As the Council of Foreign Ministers was to meet in New York in November 1946, it was agreed to hold US/UK discussions of outstanding questions of bizonal unification at the same time. These talks were held in Washington beginning on 13 November, the United States delegation being headed by Assistant Secretary of State Hilldring, whose "opposite" was Edmund Hall-Patch of the British Foreign Office. The spokesman for the War Department group was Gen Clay himself, who had

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1. Ltr, Maj Gen Oliver P. Echols, Chief, CAD, to Lt Gen Lucius D. Clay, 11 Sep 46, summarizing contents of letter of 21 Aug 46 from Ernest A. Gross, Spec Asst to the Asst Sec of State for Occupied Areas (Gen Hilldring) to Gen Echols, dated 21 Aug 46, with summary sheet and postscript by Gen Echols; WSCA Decimal File 463.3, BG 122, PRB.
 2. Memorandum, Jack Bennett, Chief of OMGUS Finance Division to C/S of OMGUS, 7 Nov 46, Subject: Bipartite Finance Operations, OMGUS AG File 100, Finance and Accounting, KCRC. CONFIDENTIAL; Declassify 170.

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brought with him several OMGUS staff members as well as Political Advisor Robert Murphy. British Military Government was represented by Gen Robertson and Sir William Strang. The discussions, which were lengthy, resulted in the formal agreement signed by Secretary Byrnes and Foreign Minister Bevin on 2 December 1946, which took effect on 1 January 1947.¹

The Byrnes-Bevin agreement solved the problem of imports and exports by assigning equal responsibility to each of the two governments. Imports were divided into Category A, those required to prevent disease and unrest, and Category B, additional imports required to achieve a self-sustaining economy by the end of 1949. The proceeds of exports would be used first for Category B imports and then for Category A imports. Any part of the cost of Category A imports not met from exports would be paid by the two governments in equal shares from appropriated funds. The agreement also provided for the settlement of accounts under the previous pooling arrangement, involving a substantial payment by the British. The agreement also provided for a Joint Export-Import Agency (JEIA) responsible for determining import requirements and administering the export-import program, for the opening of foreign exchange accounts by a Bipartite Finance Committee, and for an increase in the food ration to 1800 calories for the normal consumer as soon as the world food supply might permit.²

1. Decision, 171-73

2. Agreement for economic fusion of United States and United Kingdom zones in Germany of 2 December 1946, Occupation 224-27, Decade 528-31.

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The Byrnes-Bevin agreement was short and did not go into details. In negotiating it, the State Department had specified that the discussions would include only those bizonal arrangements that needed settlement at the government level, all other questions being left to the respective Military Governments in Berlin.¹ The agreement did establish a continuing Joint Committee in Washington, but its responsibilities were limited to supporting bizonal import requirements before allocating authorities and to determining sources of supply and procurement agencies. This committee was activated during the latter part of December 1946.²

The Bizonal Food Crisis of 1947

The US and British Zones had scarcely begun to function as a unit when there arose the most serious food crisis yet encountered. The Bizonal Agreement had placed the United States food reserves in a common pool and the British had no reserves. Gen Clay summarizes the food situation in early 1947 as follows:

"... Germany experienced the most severe winter in many years, with its frozen waterways closed to navigation. Short stocks and transport difficulties made distribution most difficult. In Washington we were bidding for supplies through a joint Anglo-American Committee formed under the bizonal fusion agreement. Here we ran into one of those strange inconsistencies which ever dogged our way in Germany. Despite the fact that reserves from our zone had been used to arrest shortages in the British Zone, and despite eloquent pleas

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1. Cable, WDSOA ES to OMGUS, WAR 84647 of 1 Nov 46, CAD Numerical File, RG 122, DRB. CONFIDENTIAL
 2. Cable, WDSOA ES to OMGUS, WAR 87703 of 14 Dec 46, CAD Numerical File, RG 122, DRB. SECRET

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for aid from my British colleague, their representative on the joint committee in Washington opposed us until British requirements were met. We were concerned because we believed the reserve stocks in the United Kingdom could be diminished safely in view of our urgent need. We were not successful and the authorized allowance in the bi-zonal area dropped to 1040 calories a day in April 1947. Weighing teams reported malnutrition at what proved to be the worst stage in postwar Germany. The apathy of the German people was alarming.¹

The allocation difficulties were compounded by a shortage of funds. After Gen Draper, then Chief of the OMGUS Economics Division, had gone through the food, fertilizer, transportation and petroleum budget in detail with officials of CAD in Washington, it was evident that tight fiscal planning was necessary, even with an expected deficiency appropriation.²

Congress, however, which was in an economy mood, threatened to reduce the deficiency appropriation below what both OMGUS and the War Department considered the absolute minimum. As Major General Daniel Noce, who had succeeded Gen Echols as Chief of CAD, cabled to Gen Clay on 14 February 1947: "Despite numerous conferences by WD officials with key members of Congress there is still a marked intention to make sharp reductions, particularly in civil functions including occupied areas civil relief." Despite strong support by the State Department, the War Department would have great difficulty in obtaining the

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1. Decision 267-68
 2. Ltr, Brig Gen William H. Draper, Jr., Chief of OMGUS Economics Division to Maj Gen Daniel Noce, Director, CAD, WSCA Decimal File 014 Germany, 16 Jan 47, DRB. RESTRICTED

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minimum included in both the 1947 deficiency appropriation and the 1948 GARIOA allotment.¹

Even Gen Eisenhower, at that time Chief of Staff of the United States Army, had to devote considerable time to discussions with key Senators and Representatives. His task was made difficult by current congressional criticism of unreasonably large civilian employment and lush living of Military Government officials. Members of Congress were inclined to think that if personnel could be cut, the same must automatically be true of food allotments.² At the request of the War Department, Gen Clay sent a cable outlining the urgent food needs of bizonal Germany.

Ex-President Herbert Hoover undertook a second mission to Germany in February 1947. This mission, as well as a similar mission to the Pacific Theater, were developed as a means of coordinating the efforts of the State, Agriculture and War Departments to solve the food and fertilizer problems of occupied territories. It was also hoped to secure bipartisan support for the food program and to satisfy Congress on the need for recommended deficiency appropriations and appropriations for the fiscal year 1948.

1. Cable, WDSOA ES personal from Petersen (originator Gen Noco) to OMGUS Berlin for Clay, WARX 92134 of 14 Feb 47, CAD Numerical File, DRB. SECRET
2. Cable, Eisenhower to McNarney and Clay, WARX 92048 of 14 Feb 47, CAD Numerical File, RG 122, DRE. CONFIDENTIAL

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There was some initial uncertainty regarding the scope of the Hoover mission. The Secretary of War had proposed to limit the mission to food and fertilizer problems. Hoover, however, who insisted that his invitation to undertake the mission come direct from President Truman, urged that the frame of reference be broadened to that of a general economic survey. Although the Secretary of War preferred that the mission stay out of the broader economic field covered by State Department negotiations for a German treaty, the President decided to authorize an "Economic Mission as to food and its collateral problems". It was understood that the mission would cover both the US and British Zones, and President Truman's invitation was seconded by a note to Hoover from the British Government. The mission included Dennis A. Fitzgerald of the Department of Agriculture and several others selected by Hoover.¹

While Hoover's recommendation that Congress appropriate the full sums requested for food and his insistence on a higher priority for food to Germany were most welcome to OMGUS, his detailed proposals occasioned some disagreement. A feature of the Hoover plan was immediate shipment of 228,000 tons of seed potatoes, to be paid for from existing funds pending inclusion of their cost in the deficiency appropriation. At first, OMGUS agreed to have the potatoes shipped as promptly

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1. Cable, OASW from Petersen (originator: Mr. Tracy S. Voorhees) to CG USFET personal for McNarney, info Gen Clay, WARK 90969 of 30 Jan 47, CAD Numerical File, RG 122, DRB. CONFIDENTIAL

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as possible.¹ When the price was quoted, however, OMGUS felt that the potatoes were too expensive.

The War Department then presented the seed potato question to Hoover, who stated his opinion that the benefits to be derived from the program more than offset the increased cost. To this, OMGUS replied that both OMGUS and British Military Government were unwilling to accept the extra cost of the potatoes without a study of the effect of the purchase on the total food program.²

On 4 March after a conference on the Hoover Report in the Secretary of War's Office, the Secretary decided that the War Department should accept and carry out the Hoover program as a whole, as the best way to obtain congressional support for the deficiency funds and the fiscal 1948 budget. It was not considered possible to select only part of the Hoover program and still obtain congressional approval.

The teleconference reporting the Secretary's decision also announced directives for the procurement of 175,000 tons of seed potatoes at the price that OMGUS and the British had rejected. OMGUS was requested to negotiate for British support for the potato purchase. When a little

1. Telecon, WD TT 7736 between Gen Noce (CAD) and Col W. W. Harris (OSW), Washington and Mr. Voorhees, Berlin, 18 Feb 47, CAD Numerical File, RG 122, DRB. RESTRICTED

2. Telecon, WD TT 7799, between Gen Noce and others, Washington, and Gen Draper and others, Berlin, 1 Mar 47, CAD Numerical File, RG 122, DRB. RESTRICTED

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later the War Department requested OMGUS comment on a technical phase of the Hoover program, Gen Clay replied: "We do not comment on War Department instructions."¹ Aside from the potato question, however, the Hoover program was generally satisfactory to OMGUS, particularly the release of Army 10-in-1 rations and other high-value foods for the child feeding program.

Hoover's recommendations resulted in raising the deficiency estimate for "category A items" (prevention of disease and unrest) to \$31,000,000 more than the previous estimate approved by the Budget Bureau. Ensuing communications between Washington and the theater were largely devoted to detailed procurement and shipment plans in accordance with the greater amount.

The food problem was, however, far from solved. As wheat remained in short supply, OMGUS was forced to accept larger proportions of corn (of which Germans normally consume very little) than desirable. By the end of March, total food shipments were running seriously behind. OMGUS reported on 31 March that the breadgrain stockpile would drop, at the current rate of depletion, to 223,000 tons by June 1947 and that a minimum of 660,000 tons was necessary to prevent a breakdown in distribution. Furthermore, the severe winter had reduced local food collections. The War Department was unable to obtain the additional supplies necessary to

1. Telecon, WD TT 7812, Gen Noce and others, Washington, Gen Clay and others, Berlin, 5 Mar 47, CAD Numerical File, RG 122, DRB. SECRET

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avert a crisis and a drop in the normal consumer ration to 1040 calories a day for April 1947 became unavoidable.

The obtaining of funds and allocations was further hampered by widely-publicized criticism of the German food collection system. Only those directly concerned with occupation administration appreciated the problem involved in getting German farmers to sell their products for a currency that had only a fraction of its normal purchasing power. As the War Department reported to OMUS on 28 April 1947, all countries requesting allocation of food from the International Emergency Food Council were required to give assurance on their food collection systems. Assistant Secretary Petersen found it necessary to ask for a special report on German food collections, to assure the Appropriations Committees of Congress that every possible effort was being made.¹ Since Secretary of Agriculture Anderson's doubts on this score had led him to resist War Department requests for additional allocations, it was finally decided to invite him to Germany to see for himself.²

Secretary Anderson's visit to Germany, made in July 1947 in the company of Secretary of Commerce Harriman, convinced him that the German food requirements submitted by Military Government were genuine. Thereafter, the Department of Agriculture took a more favorable attitude toward

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1. Cables, WD to Bipartite Board, Berlin, WARX 97058 of 28 Apr 47; Petersen personal to Clay, WAR 98295 of 16 May 47; CAD Numerical File, RG 122, DRB. CONFIDENTIAL
 2. Cable, WD to OMUS, WAR 99872 of 10 June 47, CAD Decimal File, RG 122, DRB. SECRET

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OMGUS requests. The efforts of ex-President Hoover as well as the personal impressions gained by a number of Congressmen who visited Germany in 1947 overcame the budgetary problem. Food imports on a greatly increased scale began to arrive in August 1947.

In the summer of 1947, however, a severe drought reduced the expected German food yield by 20 per cent. The American corn crop dropped 233 million bushels below estimates, and the World Cereal Requirements Conference held in Winnipeg in August 1947 emphasized that the 1947 grain crop would not feed the world. OMGUS was warned that it might have to demonstrate the effectiveness of the German food collection system, and the principle of selling German exports for dollars was waived to the extent that food could be obtained through barter. The problem was no longer one of money: The War Department planned to spend the 1947 appropriation at an accelerated rate and to apply for deficiency funds to raise the normal ration to 1800 calories. Yet available supplies would not permit even the original 1550-calorie ration to be met for some time.¹ Under Secretary of War William H. Draper, Jr., who had transferred from OMGUS to take this position, urged Gen Clay to take new measures to tighten the collection system, to provide supplies to farmers who met quotas, and to improve transport.²

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1. Cable, WDSKA SUP to CINCEUR Berlin, WAFX 85406 of 30 Aug 47, CAD Numerical File, RG 122, DRB. SECRET
 2. Approved report on coal production as cited in CABLE WAR 85994 of 10 Sept 47 from Draper to CINCEUR for Clay personal, CAD Numerical File, RG 122, DRB. CONFIDENTIAL

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During the fall of 1947 the food situation in Germany improved considerably, in spite of a continued tight world supply. At the end of this year the Department of the Army appointed Tracy Voorhees to the new position of Food Administrator for the Occupied Areas, giving him overriding authority over all phases of the food problem. The problem of getting the maximum food from German farmers remained a thorny one. As Gen Clay pointed out in a teleconference on the last day of 1947: "I can only do my best on collecting food in Germany. I know police measures won't do it and if they are used somebody else will have to use them."¹ Indeed, the problem of food collections was never satisfactorily solved so long as there was no money that the farmers considered worth having.

THE MOSCOW MEETING OF THE COUNCIL OF FOREIGN MINISTERS

The Control Council and the Deputies Report Only Disagreement

The only agreement reached at the New York meeting of the Council of Foreign Ministers (CFM) in November-December 1946 was to hold another meeting in Moscow on 10 March 1947. For this meeting the Allied Control Council was directed to prepare a comprehensive report on all phases of occupation administration. This report was intended to indicate the differences that could not be settled in Berlin, thus defining the issues to be discussed at Moscow. At the same time, deputies of the Foreign

1. Telecon, WD Washington (Gen Draper) and OMGUS Berlin (Gen Clay), no number, OMGUS telecon file, 31 Dec 47, KCRC. SECRET

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Ministers were to meet in London to hear the views of various Allied states and to consider questions of boundaries, the Ruhr and the Rhineland, a disarmament and demilitarization treaty proposed by the United States, and an expert report on the coal problem.¹

Both reports showed the very limited extent to which all four powers agreed on occupation policies. This area of agreement had been largely exhausted by the series of negative decisions (denazification, elimination of war potential, restriction of economic activity, etc.) produced by the Control Council in 1946. The four powers had also agreed to abolish the state of Prussia; that agreement which was affirmed by Control Council Law No. 46 of 25 February 1947.²

In the Allied Control Authority report of 25 February 1947, the synopsis of the economic section was largely devoted to points of disagreement, which were summarized as follows:

"The Soviet Delegation maintains the principle of economic unification but cannot agree to its implementation at the present time because (1) the progress of reparations is unsatisfactory, or (2) because each zone does not have a positive net balance of exports over imports, or (3) because there has been no agreement on an overall production plan for coal and other industries.

"The French favor economic unification but are unwilling to discuss central German administrative agencies that are necessary for its implementation.

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1. Decision pp 141-45.
 2. Wells, "State Government," in Governing, p 87. Prussia had already been abolished de facto by the establishment of successor states in all four zones.

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"The British in no way participated in the preparation of this statement but have indicated general agreement with the US recommendations."

The report went on to summarize the unilateral United States recommendations for (1) common use of indigenous resources by the Germans with agreement on Allied requirements to be drawn from the German economy; (2) pooling of export proceeds and paying the trade deficit to permit necessary imports; (3) central German agencies, elimination of international trade barriers and establishment of a provisional government; (4) elimination of reparations in kind at least until exports could pay for imports, and rapid removal of surplus industrial equipment; (5) financial reform; and (6) freedom for trade unions, freedom of press and radio, and freedom of organization for political parties.¹

The section on central German agencies was limited to a history of negotiations in the Control Council with an appended bilateral US/UK statement and unilateral French and Soviet declarations. This part of the report is summarized in the synopsis as follows:

"II. Points of Agreement:

No agreement has been reached on any of the proposals for creating these German agencies. The British and U.S. delegations have supported every such proposal unreservedly. The French have consistently objected to every proposal for said agencies. The Soviet have consistently supported the principle of creating Central German Administrations, but they have stated that until the five principal agencies

1. Paper ASEC (47) 154, "Report to the Foreign Ministers from the Allied Control Authority, in Germany, 25 Feb 47, excerpted in Documents on Unity, p. 26.

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specifically called for in the Berlin Protocol are established they are not in favor of establishing the lesser ones.

III. Agreements already reached on action to be taken by the Allied Control Authority:

NIL

IV. Agreed Recommendations to CFM:

NIL¹

As for the report of the special deputies, it is sufficient to note Gen Clay's statement that: "Their field of disagreement was so broad that they were unable to agree to a report on their disagreement, and confined their joint report to summarizing the views of the Allied Nations as presented to them." The report itself lists the following subjects as not agreed:

- Export-Import Plan
- Sharing of Import Deficits
- Financial Reform
- Subjection of Resources in Germany to German Law
- Occupation Forces and their Requirements
- Freedom of Movement
- Control of the Ruhr
- Annulment of the Bizonal Agreements
- Economic Decentralization and Decartelization
- Allied Control over Internal Allocations in Germany.²

The US Delegation in Moscow as a Source of American Policy

The Moscow meeting of the CFM produced agreement on only one important subject: a directive to the Control Council to complete

1. Documents on Unity, p 27

2. Decision, p 143. CFM/47/M/148, "Report from the Deputies to the Council of Foreign Ministers," Parts I and II, 23 Apr 47, excerpted in Documents on Unity, p 35.

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denazification as rapidly as possible and to make the German authorities responsible for legislation to carry out the Control Council's directives (numbers 24 and 38) on denazification.¹ Otherwise, the meeting produced as little agreement on Germany as those which preceded it and those that followed it.

The Moscow CFM was, however, of major importance in the shaping of American occupation policy. It afforded at least a temporary opportunity for an unprecedented degree of coordination between Washington agencies and OMGUS.²

In preparation for the Moscow CFM, the functional divisions of OMGUS had prepared 31 separate papers projecting the United States position on the various phases of economics including reparations and foreign trade, German government, denazification and other subjects. These were coordinated within OMGUS and furnished to the War and State Departments; the latter had also prepared a comprehensive set of papers.

Unfortunately, the State Department had accepted only in theory Gen Clay's offer of 11 June 1946 for "the closest possible liaison and coordination between Washington and Berlin." OMGUS received the papers

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1. CFM/47/M/148, Four Power Agreement on Denazification, reprinted in Summary of Multipartite Agreements and Disagreements on Germany, revised and supplemented edition, 15 Sept 48, Office of Military Government for Germany (US), Part I, p 107, DRB. RESTRICTED
 2. Gen Clay gives an excellent narrative decision of this process on pp 145-53 of Decision.

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prepared in the Department of State only five days before the start of the Moscow Conference. The State Department group proceeding to Moscow stopped only for two days in Berlin. It was impossible during this short time to resolve the OMGUS and State papers into a single series.

The US Delegation in Moscow included OMGUS economics experts under Brig Gen (later Maj Gen) William H. Draper, Jr., Economics Adviser, as well as specialists in governmental affairs under Director (Brig Gen) Henry Parkman of the OMGUS Civil Administration Division. At the invitation of Secretary Marshall, Gen Clay joined the delegation. There were numerous discussions and disputes between the OMGUS and State Department members, some of which approached the acrimonious. These disputes had to be and they were resolved, for the US Delegation had to function as a unit and to introduce statements of the United States position on a variety of subjects.

The work conducted on the spot in Moscow by members of the State Department and OMGUS staffs, consisting largely of reconciling the position papers of the two agencies, resulted in a series of statements made by Secretary of State Marshall, as well as US papers introduced formally at the conference. These developed and amplified United States policies far beyond what had been achieved in the past. Furthermore, they projected these policies in terms of the coming orientation of US foreign policy, which was forced at Moscow to accept the fact of aggressive Soviet aims in Europe.

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In terms of long-range occupation policy, the main importance of the Moscow CFM lay in the unilateral work of the US Delegation. Particularly in the field of economics, policy papers written at Moscow served as authoritative guidance for OMGUS, not only in the further deliberations of the Control Council but also in the management of the bizonal economy and in negotiations leading to trizonal fusion.

US Economic Policies Stated at Moscow

The American concept of the economic unity of Germany was explained by Secretary Marshall in the plenary session of the CFM on 17 March 1947. This statement embodied the experience of Military Government in the Control Council and reflected the thinking contained in current OMGUS papers. German economic unity, as the Secretary defined it, required the realization of six principles, summarized here as follows:

1. The Common Use of Indigenous Resources. Elimination of zonal economic boundaries, common ration scales and allocation of scarce commodities, agreed basis for use of German resources by all occupying forces, foreign-owned industries to be subjected to same controls as German-owned industries.
2. Export-Import Plan. Consolidated plan for all exports and imports, payment for all exports other than agreed reparations, sharing costs of importing food needed to prevent starvation, until Germany can pay for own imports.
3. Reparations. Recognition of relationship among export plan, level of industry, economic unity and the program for removal of industrial capital equipment as reparations.
4. Financial Reform. Creation of new money accepted as having real value.
5. Freedom of Movement. Zonal boundaries to be only lines of demarcation for occupying troops; all German and Allied personnel to have free movement throughout Germany.

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6. Central German Administrative Agencies. To be established as provided in Potsdam Agreement, with addition of Food and Agriculture Agency recommended by Allied Control Authority.

With the foregoing statement, Secretary Marshall introduced a proposal for a detailed directive to the Allied Control Authority, providing for meeting the requirements for economic unity and empowering the central agencies and the German Land Governments to deal with each other directly without the intervention of any occupying authorities. Control of the zone commanders over the central agencies would be exercised only through or as directed by the Allied Control Authority, which would issue the necessary policy directives for the guidance of these departments.¹

On 31 March 1947 Secretary Marshall made a statement on economic principles. He rejected the Soviet proposal for reparations from current production, pointing out that the Potsdam Agreement for economic unity was not dependent upon this proviso. "It looks very much to us," he said, "as though the Soviet Union is trying to sell the same house twice." He also refused to accept the French demand for "export of coal in conformity with the demands of the French Government" as a condition for economic unification. The United States did not agree with the French contention that, after satisfaction of French coal demands and limitation of German steel capacity to 7½ million tons, reparations could still be provided from current production. Nor would the United States entertain the Soviet proposal to balance German trade by arbitrarily reducing imports and thus

1. Summarized from CFM/47/M/26 and 27, 17 Mar 47. These documents are reprinted in full in Story in Documents, pp 441-45; extracts appear in Documents on Unity, pp 36-37.

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lowering the per capita food intake to 1100 calories per day. "The United States," said Secretary Marshall, "is opposed to policies which will continue Germany as a congested slum or an economic poor house in the center of Europe."¹

A few days later the Secretary urged the revision of the Level-of-Industry Plan adopted by the Control Council on 26 March 1946, to account for the following considerations:

"1. The maintenance of a tolerable standard of living for the German people, as provided in the Potsdam Agreement, without external assistance, making adequate provision for:

- (a) The population of Germany foreseen in 1949;
- (b) The possible loss to Germany of existing resources (e.g., the Saar);

2. Internal inconsistencies in the plan, such as, for example, the shortage of power to meet planned requirements, the inadequacy of planned provisions for certain basic chemicals, some fertilizers, and possibly steel.

3. The peacetime requirements of European countries for German products and trade revival."

The United States was willing to consider limited reparations from current production, but only to the extent necessary to compensate for plants originally destined for removal but retained in order to increase the level of industry.²

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1. CFM/47/M/88, Statement by the US Delegate on Economic Principles, 31 Mar 47, Story in Documents, pp 445-57, excerpts in Documents on Unity, p 42.
 2. Statement by Sec Marshall on "Level of Industry and Reparations from current production," Story in Documents, p 410. It should be noted that at the following CFM (December 1947, London), the United States rejected absolutely the provision of reparations from current production.

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US Governmental Policies Stated At Moscow

In a statement on the US conception of democracy, Secretary Marshall made it plain that the United States would insist on effective guarantees of civil rights. For Germany, reconstruction on a democratic basis meant protection of the individual from arbitrary police action, free organization and activity of political parties, freedom of trade union organization, freedom of the press and radio, and free movement of persons and goods throughout Germany. In another paper, a proposed directive to the Control Council on establishment of a provisional government, the Secretary developed in more detail the principles of democracy and decentralization. These were stated substantially in the form recommended by Gen Clay in his policy summary of 19 July 1946 and repeated in the OMGUS directive of 30 September 1946 governing relations between the military and civil governments in the US Zone. The directive also outlined certain requirements on which the United States would insist in passing upon a permanent German federal constitution: (1) control of electoral processes by the Laender; (2) an independent judiciary with power to settle disputes between the Laender and the central government and to protect constitutional rights; (3) limitation of the legislative powers of the central government; and (4) administration of federal laws by the Laender so far as possible.¹

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1. Proposed Directive to Allied Control Council, Central German Provisional Government, CFM/47/M/49, 22 March 1947, reprinted, Story in Documents, pp 189-90, Documents on Unity, pp 40-41, Directive, Office of Military Government for Germany (US), "Relationships between Military and Civil Government (US Zone) Subsequent to Adoption of Land Constitutions," 30 September 1946, reprinted in Story in Documents, pp 155-57, Occupation, pp 146-49.

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These provisions had been included in OMGUS papers prepared for the Moscow CFM.

There were, of course, alternate ways of setting up a German provisional government. OMGUS presented two proposals, both of which provided that the provisional government be built upon the Laender and subject to popular control and that the provisional government draft a permanent constitution to be revised by an elected convention and ratified by popular vote. OMGUS Paper No. 1, based on a plan developed by the Ministers-President of the US and British Zones at a conference in Bremen in October 1946, provided for a German National Council consisting of the Ministers-President of the Laender. The Council, would, subject to disapproval of the Allied Control Authority, appoint the heads of the central administrative agencies, who would form an Executive Council. OMGUS Paper No. 2 presented an alternate plan calling for a Council of States, consisting of six representatives from each Land elected by the Land assemblies in proportion to party strength. In this case, the heads of executive agencies would be elected by the Council of States or the Allied Control Authority, depending on the extent to which the provisional German government was to be regarded as an agent of Military Government. While paper No. 2 specified that the executive would not be subject to overthrow by the Council, neither paper indicated a method of removing agency heads once installed.

The Department of State, which had consulted OMGUS governmental experts through USPOLAD, also presented two plans for provisional government as alternatives in a single paper. These were the same as the OMGUS plans,

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except that the Council of States would have 20 members each for the US, UK and Soviet Zones and 10 members for the French Zone, plus one additional member appointed by each Land government. The plan finally selected for presentation to the CFM was Plan No. 1, calling for a German National Council consisting of the Ministers-President.¹

As it turned out, the establishment of the Economic Council for the Bizone followed more closely (though not exactly) Plan No. 2. The subsequent formation of a West German government proceeded quite independently of the then existing bizonal organization, but in accord with the political thinking developed in the OMGUS papers for the Moscow CFM as well as later OMGUS writings on constitutional subjects.

In still another paper, on international control of the Ruhr, Secretary Marshall made the point that, while international control to assure equitable and non-discriminatory distribution of coal and steel produced by the Ruhr was desirable, such arrangements "should not interfere with German responsibility for the management and operation of Germany's resources."²

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1. OMGUS papers Nos. 1 and 2 and State Department paper on provisional German government, Moscow CFM, "Summary of US Statements on German Government," OMGUS Civil Administration Division (duplicated), KCRC. SECRET State Dept cable 329 from USPOLAD Berlin to Sec of State, 7 Feb 47, WDSCA Decimal File 014 Germany, RG 122, DRB. SECRET Bremen Conference of Government Chiefs, 4 and 5 October 1946, Resolution No. 3, German Laenderrat and German Volksrat, reprinted in Occupation, pp 228-29.
 2. Statement by Sec Marshall, International Control of the Ruhr, Moscow Session of CFM, 10 Apr 47, reprinted in Story in Documents, pp 329-30.

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THE NEW BASIC DIRECTIVE (JCS 1779)

The general revision of JCS 1067/6 had been on the agenda of the SWNCC Subcommittee for Europe since 17 September 1946, but activity had been suspended from December 1946 until after the Moscow CFM. As it became apparent that the Council of Foreign Ministers would produce no significant Allied agreements, the revision of JCS 1067 was once more taken in hand.

The SWNCC Draft of 11 April 1947

A working party of the SWNCC Subcommittee for Europe prepared the draft of the revised directive, taking into account the US/UK bisonal agreement as well as the policies enunciated by Secretary Byrnes at Stuttgart and so far by Secretary Marshall at Moscow. There were no major points of disagreement between the State and War Department members of the working party.¹

The draft was introduced in the State-War-Navy Coordinating Committee by the State member (Gen Hilldring) on 11 April 1947 with a request for priority consideration. Gen Hilldring noted: "This paper has to a large extent been approved by the working party, but in order

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1. Brief by Daniel C. Fahey, Chief of Planning Branch, CAD, Subject: 327/3 Revision of Directive to Commander-in-Chief of US Forces of Occupation re the Military Government of Germany, 20 May 1947, CAD SWNCC 327/3 File, RG 122, DRB.

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to expedite final action, I should like to present this paper to the Committee without waiting for final concurrence by the European Subcommittee."¹

As compared with later versions of SWNCC 327, which became JCS 1779, the draft of 11 April still tended to emphasize the original policy of seeking to attain US objectives in Germany through quadripartite agreement. A paragraph entitled "Relations Between the Control Council and Military Government in the U.S. Area of Occupation," superseded in later versions by that entitled "Authority of Military Government" (Paragraph 2 of JCS 1779), began by directing the Military Governor to "continue to seek through the Control Council quadripartite agreement on policies and procedures on all matters which affect Germany as a whole." Where quadripartite agreement was not feasible, the Military Governor was either to institute appropriate measures in the US Zone or coordinate economic policies and procedures "with other Military Commanders in a position to collaborate with you for this purpose."

The provisions on government began by stating that the United States wished "a reaffirmation of the tradition of federalism" in Germany. The US Commander was instructed to support in the Control Council proposals for the reconstitution of the Laender, considering both historical tradition and modern needs.

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1. SWNCC 327/1, note by the Secretaries, "Revision of Directive to Commander-in-Chief of US Forces of Occupation regarding Military Government of Germany," 14 April 1947, CAD SWNCC 327/3 File, RG 122, DRB. CONFIDENTIAL

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The section of the draft on reparations reaffirmed the Level-of-Industry Agreement of 28 March 1946, with the proviso that capacity in excess of the level provided therein would not necessarily be eliminated until the other provisions of the Potsdam Agreement should be fulfilled. In the meantime, Military Government would proceed with reparation deliveries from the US Zone, but would not complete the deliveries under the Level-of-Industry Agreement or make deliveries which would increase support required from the United States. After the period of reparation removals, the German people would not be denied the right, consistent with continued disarmament, to develop their resources to achieve a higher standard of living.¹

Aside from the aspects just discussed, the draft revision of 11 April 1947 was substantially the same as the 16 May 1947 draft, known as SWNCC 327/3.

A Revised Draft Incorporates a New Occupation Policy

SWNCC 327/1, the draft of 11 April 1947, was considered by the main committee of SWNCC but on 6 May 1947 was referred back to the Subcommittee for Europe at Gen Hildring's request "for revision in the light of recent developments." It is evident that these "recent developments" included the negotiations then being conducted with the British for the strengthening of the bizonal economic organization. Another "recent development"

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1. SWNCC 327/1, "Revision of Directive to Commander-in-Chief of U.S. Forces of Occupation regarding Military Government of Germany" 14 April 1947, CAD SWNCC 327/3 File, RG 122, DRB. CONFIDENTIAL

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was the return of Secretary Marshall from Moscow: he had stopped on 25 April in Berlin to talk with Gen Clay, and had instructed Clay "to proceed vigorously with the strengthening of the bizonal organization in conjunction with Robertson, and to expedite the upward revision of the level of bizonal industry to insure the self-sufficiency of the area."¹

The SWNCC Subcommittee for Europe completed its revisions of the 11 April draft by 16 May 1947, and they were circulated to SWNCC under the number 327/3. The State-War-Navy Coordinating Committee then proceeded to make some revisions, which were circulated as a "corrigendum." The changes so made were, however, more than mere corrections. They completed the recasting of the basic philosophy implicit in the directive, a process already begun with the 16 May revision. This is best illustrated by a comparison of some of the language before and after the "correction."

EXCERPTS FROM SWNCC 327/3, REVISED DIRECTIVE ON MILITARY GOVERNMENT OF GERMANY

As circulated 16 May 1947, and as corrected 20 May 1947.

/Language eliminated by the correction appears at the left, language added by the correction at the right, while language unaffected by the correction is printed across the page. Language retained in the directive as finally issued (JCS 1779 of 11 July 1947) is underlined./

2. Authority of Military Government

a. Your authority as Military Governor will be broadly construed and empowers you to take any action consistent with relevant international agreements,

general foreign policies of this government,

and with this directive which you deem necessary, appropriate or desirable to attain your government's objectives in Germany or to meet military exigencies.

1. Decision, p 174.

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b. Pending arrangements for the effective treatment of Germany as an economic and political unit, you will

continue your efforts for the coordination of policies and procedures with other Zonal Commanders in a position to collaborate with you for this purpose. You will also continue to seek through the Control Council quadripartite agreement when in your opinion such action appears practicable.

exert every effort to achieve economic unity with other zones. To this end, you will press for the successful and efficient implementation of the U.S.-U.K. Agreement of 2 December, 1946 for the full economic integration of the U.K. and U.S. Zones of Occupation in Germany and any extension thereof.

c. When in your opinion it appears practicable to do so, you will also continue to seek quadripartite agreement through the Control Council.

3. U.S. Policy toward Germany

The basic interest of the U.S. throughout the world is just and lasting peace.

The intent of your government toward Germany, therefore is to take every possible step to insure that Germany does not again disturb the peace.

Such a peace can be achieved only if conditions of public order and prosperity are created in Europe as a whole. An orderly and prosperous Europe requires the economic contributions of a stable and productive Germany as well as the necessary restraints to insure that Germany is not allowed to revive its destructive militarism.

To that end

the U.S. Government has proposed to the other occupying powers a treaty for the ... disarmament and demilitarization of Germany and it has committed itself to maintain a U.S. Army of Occupation as long as foreign occupation continues.

To accomplish the latter purpose the

Without compromising in any way the rigorous program of disarmament, you will accordingly seek as the positive goal of military occupation the creation of those political, economic and cultural and moral conditions which will facilitate the emergence of a Germany prepared to lend its talents to the constructive works of world peace and prosperity. You will offer assurance to the German

As a positive program requiring urgent action, the U.S. Government seeks the creation of those political, economic and moral conditions in Germany which will contribute most effectively to a stable and prosperous Europe.

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people that they, by demonstrating their intention and their ability to pursue such a course, can earn American recognition of Germany's claim to an equal and honored place among nations.

The revision of 16 May 1947 demonstrated an important shift in US occupation policy. At the Moscow CFM, the Soviet Union had shown conclusively that it was interested neither in achieving German unity, through the Control Council nor in promoting European economic recovery. In the draft of 15 April, economic union of a part of Germany had been treated as an exception to the rule: in the 16 May draft it became the rule. Correspondingly, the possibility of quadripartite agreement dwindled to the status of an afterthought.

The change was further emphasized in the "correction" of 20 May 1947. The relationship of occupation policy to overall foreign policy was explicitly recognized, as was the relationship of German recovery to European recovery. The amended text directed "every effort to achieve economic unity" and specified the US/UK Agreement of 2 December 1946 as the appropriate vehicle. While the reference to this Agreement was omitted in the final directive, the reason was not a reversal of the policy shift but rather the knowledge that new US/UK arrangements were in the making.

The changes made between 16 and 20 May 1947 in section 3 of the draft reflect the abandonment of the philosophy of punishment and moral superiority in dealing with Germany. Rather than relying on the suppression

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of Germany as the key to peace, the United States would now base its German policy on the conviction that peace required public order and prosperity in Europe as a whole. Because Germany was an integral part of Europe, such peace and prosperity would require a stable and productive Germany. The need for restraints against possible German militarism still existed, but they had dropped to secondary importance in comparison with the more important goal of European recovery.

The "economic disarmament and reparation" section of the 16 May revision provided for the first time for an upward revision of the level of industry of 28 March 1946. Such a revision would eliminate inconsistencies in the levels left to separate but interdependent industries, and would correct the original assumptions on boundaries, population and the ability of Germany to market export products in peacetime trade. It was recognized that Germany might be left with a higher long-run standard of living than other countries. While the last statement was eliminated by the Secretaries of State, War and Navy on 21 May 1947, it is apparent that this was done to avoid offense to Allied countries.

The section of the 16 May draft on "economic unity and recovery" contained the language carried over to the final directive calling for "a production and foreign trade program for Germany as a whole which should be directed toward an increasing standard of living in Germany and the attainment at the earliest practicable date of a self-sustaining German economy." The proceeds of exports would be used first to meet German import needs and second to compensate the occupying powers for past

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expenditures for essential imports. These objectives were to be pursued in the Control Council, but implementation in those zones of Germany treated as an economic unit would not await quadripartite agreement.

The remaining provisions of the draft of 16 May 1947 were in general substantially as issued in the final directive.¹

The New Directive is Issued to Military Government

At the end of the week of 19-23 May 1947, Assistant Secretary of War Petersen went to visit Gen Clay in Berlin to talk mostly about the food situation, but also about bisonal reorganization and the proposed general directive. Petersen brought back with him Gen Clay's comments.² These included recommendations that the directive provide that German exports be paid for in hard currency or necessary imports, and that the Military Governor be directed "to emphasize to the German authorities the advantages of free enterprise."

The Directive was given its finishing touches in a series of War-State Conferences and conversations between the Assistant Secretaries. It was then approved by SWNCC and referred to the Joint Chiefs of Staff, which issued the Directive as JCS 1779 of 11 July 1947. Gen Clay's recommendation on export policy was followed in substance though in rather different form. The language adopted on the question of free enterprise versus socialization was a compromise between Gen Clay's suggestion and the weaker

1. SWNCC 327/3 of 16 May 47 with corrigendum of 20 May 47, CAD SWNCC 327/3 File, RG 122, DRB.

2. Undated note from D. C. Fahey to Gen Eberle, CAD SWNCC 327/3 File, RG 122, DRB.

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language contained in SWNCC 327/3.¹ In other respects, the directive represented a compromise between State and War Department points of view.

The general economic objectives of the US stated in JCS 1779

were:

"a. to eliminate industry used solely to manufacture and to reduce industry used chiefly to support the production of arms, ammunition and implements of war;

"b. to exact from Germany reparation for the losses suffered by United Nations as a consequence of German aggression;

"c. to encourage the German people to rebuild a self-supporting state devoted to peaceful purposes, integrated into the economy of Europe."

Although German economic rehabilitation was the responsibility of the German people, the Military Governor was to provide general policy guidance, to assist the development of balanced foreign trade, and to ensure the consistency of German efforts with American objectives.

While the general principles of the Potsdam Agreement on reparations and industrial disarmament were reaffirmed, they were not interpreted to limit permanently Germany's industrial capacity. After completion of reparation removals, the German people should not be denied the right to develop their resources so as to achieve higher standards of living. The United States did not agree to reparation from Germany greater than provided in the Potsdam Agreement, nor reparations requiring

1. Memo from Daniel C. Fahey to Gen Noce, Chief of CAD, 9 Jul 47, subj: Revision of German Directive SWNCC 327/4, CAD SWNCC 327/4 File, RG 122, HRS.

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direct or indirect financing by the United States. The proceeds of authorized exports were to be used in the first place for the payment of authorized imports.

The directive stated the principles for a production and trade program designed to raise the German standard of living and make Germany self-sustaining as rapidly as possible. German economic recovery required the reorganization of German finances: the Military Governor was authorized to take a series of interim measures, but full currency reform was still to be sought through the Control Council. While Military Government would explain "the principles and advantages of free enterprise," it would remain neutral on public ownership of enterprises in Germany except to assure that choices for or against were made democratically. Trade unions would be free to organize, provided that they were democratically operated and that any federation should not impair the efficiency of the member unions.

The directive omitted any detailed statement on denazification, directing merely the implementation of the CFM decisions of 23 April 1947 as might be agreed in the Allied Control Authority.

The political objective of the United States in Germany, stated the directive, was to promote "a form of political organization and a manner of political life which, resting on a substantial basis of economic well-being, will lead to tranquility within Germany and will contribute to the spirit of peace among nations." The task of Military Government was that of helping to lay the economic and educational bases of a sound German democracy, encouraging democratic efforts and prohibiting anti-democratic activities.

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The Military Governor would continue to promote development in Germany of institutions of popular self-government and the assumption of direct responsibility by German governmental agencies. These were to be assured legislative, judicial and executive powers consistent with military security and the purposes of the occupation. It was the US view that the most constructive development would be the establishment of federal German states (Laender) and the formation of a central German government with carefully defined and limited powers and functions. All powers would be vested in the Laender except as expressly delegated to the central government. The United States did not wish to impose its own form of democracy and social organization on Germany nor would it countenance such imposition by any other power.

The ultimate constitutional form of German political life was to be left to the democratic decision of the German people. Pending the establishment of all-German administrative agencies or a central government, US Military Government would continue to arrange with other zones for the creation and operation of interzonal German administrative agencies.

Political parties were to be competitive and voluntary. There would be no discrimination and no curtailment of political rights except that where an authorized party should adopt or advocate "undemocratic practices or ideas" Military Government could restrict or withdraw its rights and privileges.

JCS 1779 concluded with a statement of educational and cultural objectives designed to promote a social structure in which democracy could

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develop and flourish. The free exchange of information and ideas was to be sought in the Control Council. Finally, the directive provided for the establishment of international cultural relationships including travel into and out of Germany as well as a free flow of cultural materials in both directions.¹

REVISION OF BIZONAL ORGANIZATION AND ECONOMIC ARRANGEMENTS

Centralisation in Frankfurt and Establishment of the Economic Council

The original German bizonal economic organization, consisting of six separate committees with their agencies in four separate locations, proved too loose and unwieldy. This had been more or less anticipated, but until the end of 1946 US and British officials had for political reasons refrained from carrying the organizational unification of the two zones any further.

A special difficulty was caused by the unequal authority of the bizonal agencies with respect to the US and British Zones. In the US Zone the highest units of public administration were the Laender, the technical staffs attached to the Laenderrat (except for the postal and railroad administrations) having limited technical coordinating functions without executive authority. The British in their Zone, on the other hand, had transferred the functions of the former Reich ministries to centralized zonal administrations which - in keeping with the centralized administrative

1. JCS 1779, "Directive to Commander-in-Chief of the U.S. Forces of Occupation," 11 July 1947, reprinted in Decade, pp 552-62, Story in Documents, pp 33-41, and Occupation, pp 91-99.

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pattern of the United Kingdom - were permitted to function with practically the full powers the ministries had exercised during the Hitler regime. These British zonal agencies were direct organs of British Military Government, which exercised a close control over their activities and gave formal issuance to the directives and instructions prepared by these agencies.

Upon the economic unification of the two zones, the new bizonal administrative agencies took over the functions and practically all the personnel of the former British Zone agencies, recruiting new staff members from the US Zone. The result was that the bizonal agencies, particularly the Economics Administration at Minden, tended to devote the bulk of their routine activities to the British Zone. An analysis of the incoming and outgoing mail of the Bizonal Economics Administration showed that in June 1947, after the agency had been in operation for almost three-quarters of a year, it was still administering directly for the British Zone a large variety of transactions which, for the United States Zone, were decided finally within the Land ministries.¹

By virtue of formal agreements sanctioned by the two Military Governments, the Executive and Joint Committees had authority to issue binding directives to the Laender. The Committees and their administrative agencies had, however, no means of enforcement. This was not so serious in the British Zone, where the Laender and subordinate authorities were accustomed to executing zonal orders issued by authority of British Military Government,

1. Staff Study, "Proposal for a Study of Bizonal Agencies and their Administrative Relationships," Jun 47, OMGUS Civil Administration Division File, "Bisonia - Administrative Agencies," KCRC.

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but in the US Zone it was often difficult to obtain compliance. As Gen Clay points out, "State Governments which were responsible to elected parliaments felt that they represented more nearly the will of the German people and therefore accepted the rulings of the bizonal agencies reluctantly and sometimes only after they were required to do so by Military Government."¹

It was obvious that two things had to be done. One was to provide better coordination among the administrative agencies, which were adopting conflicting policies and engaging in jurisdictional disputes. The other was to give them political acceptability by establishing a bizonal control structure representing the parliaments and cabinets of the various Laender.²

After the events of the Moscow meeting of the CFM had removed the restraint on the strengthening of the bizonal economic organization and Secretary Marshall had instructed Gen Clay to proceed, the US and British Military Governments negotiated an agreement which was signed by Gen Clay and Gen Robertson on 29 May 1947. This agreement established a parliamentary

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1. Decision, p 173; Bisec paper BIB/P(46)5 (Revise), 5 Sept 46, "Preliminary agreement on the establishment of a German economic administration," reprinted in The Evolution of Bizonal Organization, CMGUS Berlin 1948. Appendix I. The staff study cited in Note 1, p 57, points out that in the Economics Administration, eight division chiefs each had authority to send out mimeographed instructions to the Land Ministries of Economics. There was no central review in the agency nor even a central file of instructions issued. This loose control within the bizonal agency may well have been conducive to arbitrary instructions to which the Laender objected.
 2. The Evolution of Bizonal Organization, p 4.

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body known as the Economic Council, having 52 members chosen by the Landtage of the eight Länder. The Economic Council was charged with directing the economic reconstruction of the Bizone, adopting and promulgating ordinances on a variety of economic subjects and authorizing the issuance of implementing regulations under existing legislation.

The agreement also established an Executive Committee consisting of one full-time representative appointed by each of the eight Land governments. The Executive Committee was to recommend ordinances for adoption by the Council, issue regulations under delegation from that body, and coordinate the activities of the bizonal agencies.

The heads of administrative agencies, who were not to belong to the Executive Committee, were to be appointed and removed by the Economic Council. As specified in the agreement, "the Directors will operate under the immediate supervision of the Executive Committee, but will have general responsibility to the Economic Council." Within the policies adopted by the Economic Council and under the supervision of the Executive Committee, each Executive Director could issue implementing regulations in his own functional field. Except for centrally administered services such as the railroads and post office, execution of bizonal ordinances and regulations was a function of the Land governments, on whom such directives were binding.

The Economic Council and the Executive Committee were established in Frankfurt, and it was arranged to move the various administrative agencies to that city as rapidly as possible. At the same time, US and British

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Military Government established a Bipartite Control Office in Frankfurt, headed by US and British Co-Chairmen. The Bipartite Control Office, known as BICO, which operated under a broad delegation of authority from the Bipartite Board, took over the Military Government Control Groups which had been supervising the various administrative agencies. While the Bipartite Board in Berlin continued to function as the final authority, BICO in Frankfurt was now able to handle the bulk of liaison with the German agencies. The Bipartite Panels for the various functional fields in Berlin were abolished, but their members continued to serve as advisers to the Bipartite Board.¹

Revision of Bizonal Economic Arrangements - US Majority Vote on Economic Matters

The foreign exchange position of the British Government, which had been temporarily relieved by a large loan from the United States, deteriorated again in 1947. Since bizonal food requirements had to be met largely in the dollar area, the British requested that the United States take over the bulk of financial responsibility for the bizonal area. Negotiations for the revision of the Byrnes-Bevin Agreement were scheduled in Washington in October 1947.

Since the Agreement was a government-level commitment involving the budgets of both the US and British Governments, its revision could only

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1. Decision, pp 174-75; Evolution of Bizonal Organization, pp 4-5 and Appendix II, "Agreement for Reorganization of Bizonal Economic Agencies," also Military Government proclamation No. 5 of 10 Jun 47, Economic Council, reprinted in Occupation, pp 229-34.

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be undertaken on governmental level. Close contact was maintained, nevertheless, with the military governments of both negotiating parties. Gen Clay was advised that both State and War Departments desired his presence and that of Ambassador Murphy. The British delegation similarly included General Brownjohn of British Military Government.¹

Since whatever arrangements were made would also affect the appropriations required for military government, the State, Treasury and War Departments presented the case to the Appropriations Committees of the Senate and House before the start of negotiations. Although no decisions were made in these hearings, members of the Senate Appropriations Committee made clear their opinion that if the United States was to carry a larger part of the expense of Germany, it should have a corresponding majority in the control of Germany's economy. Such a shift of control to the United States side had already been recommended by Gen Clay, whose views were supported by the War Department.²

Before the conference actually started, Gen Clay was requested to give advice on the way to reach financial and administrative arrangements sufficiently flexible to include the French Zone at a later date, on what political questions would affect revision of the Economic Agreement, on what supplies the British could continue to furnish, and on how to apply increased US control within the existing bipartite structure. When the Conference opened on 8 October, Gen Clay was designated as spokesman for

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1. Cable, Draper personal to Clay, WAR 85447 of 2 Sept 47, CAD Numerical File, RG 122, DRB. SECRET; Decision, p 177.
 2. Cables, Gen Moe personal to Gen Clay, WAR 86676 of 19 Sept and WAR 86797 of 21 Sept 47, CAD Numerical File, RG 122, DRB. SECRET

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the US Delegation, even though outranked by civilian members from the Departments of State and Army. Within the Delegation, Gen Clay argued successfully against extending the United States majority control from economic to political matters. "To insist on lowering their (the British) status to that of a junior partner would have made collaboration difficult if not impossible. In view of their financial position we could have forced their acceptance, but damaged British prestige in Europe was not really to our interest."¹

Although Gen Clay had to leave on 23 October 1947 to prepare for the London meeting of the Council of Foreign Ministers, the War Department kept him in touch with the negotiations, which were protracted. As a condition for agreeing to US majority control in the Joint Export-Import Agency (JFEA), the British for a time insisted on giving their representatives in Germany the right to appeal a decision to the governmental level, suspending its execution.² In the end, however, the British were forced to give in, and the new agreement was signed on 17 December 1947 by Acting Secretary of State Lovett and Sir William Strang.

Under the revised bizonal agreement the British Government, after fulfilling commitments for Category A (disease and unrest) supplies already undertaken up to the end of 1947, was required only to supply a specified quantity of Category A goods from the sterling area during the

1. Decision, p 178.

2. Cables, Draper personal to Clay, WAR 90434 of 15 Nov and WAR 90829 of 20 Nov 47, CAD Numerical File, RG 122, DRB. SECRET

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calendar year 1948. It also agreed to make available a sum to be used for Category A purchases from the sterling area, but such purchases would, so far as possible, avoid direct or indirect dollar drains on the UK. The balance of Category A requirements would be provided by the US. The British agreed to convert sterling held by the Joint Foreign Exchange Agency into dollars, but the amount to be converted was limited to \$40,000,000 through 1948 in order not to aggravate the dollar difficulties of the UK.

The British Government recognized that the United States, by undertaking the major contribution toward the cost of bizonal imports, had become entitled to a majority voice in the Joint Export-Import Agency and the Joint Foreign Exchange Agency. The 1946 bizonal fusion agreement was accordingly amended to grant each side a voting strength proportional to the appropriations made available by the respective governments. It was further agreed that both parties would endeavor to develop, at the earliest possible date, a German economy that could be maintained without further financial assistance from either government.¹

The Final Reorganization of Bizonal Machinery

The governmental structure created by the first bizonal reorganization of May-June 1947 did not work very well. A small conservative majority controlled the Economic Council, while the Social Democrats dominated the Executive Committee. The two bodies quarreled, and the Council tended to bypass the Committee in dealing with the Executive Directors of the

1. Extension and Revision of Bizonal Fusion Agreement, 17 Dec 47, Department of State Bulletin of 28 Dec 47, pp 1262-67; reprinted in Decade, pp 531-39, Story in Documents, pp 453-60.

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agencies. It was difficult to secure necessary legislation in the Council, and the Laender delayed in executing the laws, frequently challenging the authority of the bizonal organization. The need for a further structural reform became apparent.

Once again, the reorganization was postponed until after the coming CFM meeting, even though hopes of agreement with the Soviets were scant. After the London meeting of the CFM had collapsed on 15 December 1947, Generals Clay and Robertson presented their joint recommendations to Secretary of State Marshall and Foreign Minister Bevin. One more effort was proposed to obtain Soviet agreement to a currency reform, failing which it would be carried out in Western Germany if France would agree or in the Bizone if France refused. A plan was also introduced for giving political character to the bizonal administrative structure by a direct election of the Economic Council in the early summer of 1948. It was proposed to continue participating in the Allied Control Council unless that body should be broken up by others, to stay in Berlin regardless of Soviet pressures and to welcome French collaboration without putting pressure on France. These recommendations were accepted by the two Foreign Secretaries, who instructed Gen Clay and Gen Robertson "to improve the political organization of the bizonal area without delay," leaving details and procedures to the discretion of the two Military Governors.

In the second and final bizonal reorganization, no less than in the case of its predecessor, OMGUS proceeded without guidance from Washington. The outline for the new bizonal structure was developed by the OMGUS Civil Administration Division and its British counterpart and was presented to a

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conference of German officials on 7 January 1948. Representatives of the Laender and the existing bizonal agencies were invited to present their suggestions and counter-proposals and a series of military government and German committees were formed to discuss legislation carrying the reorganization into effect. As it turned out at a further major conference on 26 January 1948, the Germans were not in agreement among themselves, so that the two military governments had to make their own decision regarding the appropriate bizonal structure.

Washington would not have become involved in the process at all, had not the French Government presented an aide-memoire objecting to the proposed reorganization as creating too strong a central government. This French protest was not taken seriously in Washington. COMUS was informed of the intention to reply to the French that the United States found a more workable bizonal organization necessary, that the French were always welcome to join the zonal fusion in which case they would participate in all proceedings including reorganization and, finally, that the question of an ultimate West German Government remained unprejudiced. Following a memorandum from Gen Clay concurring with this intention, the State Department replied to the French Government on 2 February 1948, affirming the United States' intention to proceed with bizonal organization.¹

The reorganization, which was officially proclaimed on 9 February 1948 by Gen Clay and Gen Robertson (Proclamation No. 7 for the U.S. Zone),

1. Cable, OUSW to CINCEUR, WAR 94105 of 15 Jan 1948, CAD Numerical File, RG 122, DRB. SECRET Decision 179

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increased the membership of the Economic Council from 52 to 104, the new members being selected by the Landtage on the same proportional basis as the original members. The Executive Committee was abolished and replaced by an upper house or Laenderrat composed of two representatives designated by each Land government. The Laenderrat was empowered to inform itself on all legislative and administrative matters and to initiate legislation except on taxation and appropriations. It had limited power to amend or veto legislation passed by the Economic Council. The latter could reject Laenderrat amendments by a simple majority and a veto by an absolute majority of its members. Since it was contemplated that the Ministers President of the several Laender would themselves participate in the Laenderrat, that body became the principal channel for inter-Land cooperation within the two Zones.

The directors of the various administrative agencies were grouped together as an Executive Committee (not to be confused with the previous Executive Committee) which was actually an economic cabinet. The Chairman of the Executive Committee had no departmental responsibilities and was equivalent to a Prime Minister for economic purposes only. The entire Executive Committee was elected by the Economic Council, the Chairman being also confirmed by the Laenderrat. The Council could remove the Committee or individual members by a vote of non-confidence, confirmed by the Laenderrat in the case of the chairman and by the Bipartite Board in all cases.

At the same time that the legislative and administrative structure for the Bizone was reorganized, a German High Court was established for

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the combined economic area to take final jurisdiction in legal cases involving laws passed by the Economic Council or regulations issued thereunder. This reorganization, the final reform of bizonal German governmental structure, was accompanied by a reorganization of the Bipartite Control Office under which the parallel United States and British staffs were integrated under a single line of supervision, except for the joint US and UK Chairmen.¹

PROBLEMS OF STATE-ARMY-OMGUS LIAISON

The coordination on matters of occupation policy achieved between the Department of State and OMGUS at the Moscow CFM had been only temporary. Immediately after that conference, Riddleberger, Kindleberger and Cohen, the members of the US Delegation most concerned with problems of German government, left the Department.²

Although the Department of State continued its interest in German affairs, it failed to take advantage of the offer made by OMGUS to establish close liaison and coordination. The result was that two separate policies developed: an OMGUS policy and a State Department policy. Since the War Department with few exceptions supported the recommendations of Gen Clay, there ensued friction between the two departments in Washington. Whenever the Department of State was drawn into German problems by

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1. The Evolution of Bizonal Organization, pp 8-13, and Appendices III and IV containing Military Government Proclamations Nos. 7 & 8 respectively.
 2. Riddleberger joined Ambassador Murphy's staff in Berlin, later succeeding him as Political Advisor.

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diplomatic negotiations, there was a hasty last-minute exchange of information and reconciliation of ideas. In negotiations among the Military Governors, however, OMGUS pursued its own policies with little or no guidance from Washington.

The first reorganization of the bizonal governmental structure was a case in point. After Secretary Marshall had instructed Gen Clay to proceed, Washington's participation in further developments was insignificant. Gen Clay reported by cable the progress of his negotiations with Gen Robertson indicating particularly his fear that the reforms proposed by the British might result in excessive centralization of governmental power. On 7 May 1947, the War Department sent to Gen Clay a cable giving agreed suggestions of the Secretaries of State, War and Navy on avoiding this contingency. Powers exercised at the bizonal level should be carefully limited, and final legislative powers should be reserved to the Military Governors.¹ Apart from this cable, however, the records of the Civil Affairs Division indicate no guidance supplied to OMGUS in connection with the first bizonal reorganization.

The failure of the State Department to coordinate its German activities adequately with OMGUS did not mean that the Department had become entirely passive. On the contrary, it evinced a tendency to inject itself into inter-Allied negotiations in such a way as to embarrass OMGUS, which often did not expect such intervention. Such incidents sometimes occurred

1. Cable WDSOA PL to CINCEUR for Clay, WARX 97686 of 7 May 1947, CAD Numerical File, RG 122, DRB. SECRET

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as a result of communications from USPOLAD to the State Department (which were not always cleared with Ambassador Murphy), following which queries and sometimes pointed suggestions would come back to OMGUS through War Department channels. The friction thereby engendered led Assistant Secretary of War Petersen to write to Gen Hilldring on 16 July 1947, suggesting that the War and State Departments agree on the following policy statement:

"It is recognized that German problems which cannot be resolved in Germany must be resolved at governmental level. However, in the interest of better coordination, such problems should not be discussed in detail elsewhere until discussions have proved fruitless in Germany. When questions relating to internal German problems are raised at governmental level, wherever practicable our government should suggest to the other governments that the question be first referred to Germany for consideration by the military governments concerned so that they may submit their views to their respective governments before the problem is considered at the governmental level."

While circumstances might warrant exceptions to the proposed policy, Petersen continued, he had no doubt of its soundness.¹

While later correspondence indicates that Petersen's proposal to resolve all questions on the Military Government level so far as possible was accepted,² there was considerable lack of clarity regarding Gen Clay's

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1. Letter, Asst Sec of War Howard C. Petersen to Asst Sec of State Gen John H. Hilldring, 16 July 1947, CAD Decimal File 334 SWNCC, RG 122, DRB. SECRET
 2. A case in point is covered in cable WAR 88177 of 11 Oct 1947 from Gen Clay (temporarily in Washington) to his deputy Gen Hays, CAD Numerical File, RG 122, DRB. CONFIDENTIAL

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authority, even though this authority had been newly defined in Directive JCS 1779 of 11 July 1947. As explained in War Department internal memorandum of 29 August 1947:

"...The desk officers and career officers in the State Department have had a tendency toward telling General Clay how instead of what to do concerning the occupation while the War Department had generally considered General Clay capable of determining and conducting necessary negotiations satisfactorily. The issue has been further complicated through general neglect to utilize official channels between Washington and General Clay. The official channel is through the JCS, but, in practice, this channel has been disregarded and the majority of communications have developed into personal messages.

"Another factor which caused some friction resulted from attempts by representatives of other nations who, not being able to make their point with Clay, attempted to exert pressure by appeals to the State Department through their respective embassies. Until recently the State Department has lent a sympathetic ear to these pleas but has agreed to discourage these and runs in the future."

Still another problem resulted from requests by the Department of State for measures requiring additional expenditures for which neither the War nor the State Department had the appropriations. A case in point, in the economic field, was the request to ship part of the German imports through the Benelux ports for political reasons. This would have cost five million dollars annually for which no funds were available.¹

The conflict between the State and War/Army Departments in Washington had its inevitable parallel in dissension between the Office of Political Affairs (USPOLAD) and OMGUS in the theater. The main competitor of USPOLAD was the OMGUS Civil Administration Division, which as

1. Memorandum, subject: "Points of Difference Between the State and War Departments Concerning the German Problem," from Col Henry A. Byroade, Chief, Military Survey Branch, P & O, to Gen Norstad, Chief P & O, 29 Aug 1947, P & O Decimal File 091 Germany, DRB. CONFIDENTIAL

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early as 1946 took over certain operating functions of USPOLAD, playing at the same time a growing role in the development of policy. For a while, a modus vivendi was attempted based on a division between political affairs, which remained the province of USPOLAD, and governmental affairs for which the Civil Administration Division became responsible. It soon proved, however, that the two could not be separated. Since the Civil Administration Division was fully under the command of the Military Governor, while USPOLAD owed its primary allegiance to the State Department, it was natural for Gen Clay to refer problems to his own subordinates when in doubt.

As liaison between the State and War Departments deteriorated during the latter period of military government, Gen Clay felt increasingly the need for political staff officers who would support him without qualification, and who would not initiate pressure from above via another department. As the Civil Administration Division demonstrated its capacity to deal with broader political problems, the Director of that Division became the de facto political adviser. Both in the negotiations on bilateral organization and in those on West German government and trizonal fusion discussed in Chapter 10, technical planning and advice were the exclusive province of the Civil Administration Division.

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Chapter 9

THE MARSHALL PLAN AND THE DISMANTLING ISSUE

INCLUSION OF GERMANY IN THE EUROPEAN RECOVERY PROGRAM

From the very beginning, it was understood that the European Recovery Program would have to include Germany, because West European economies were dependent in varying degrees upon German products. On 20 June 1947, two weeks after Secretary Marshall had broached the program at Harvard, the State Department circularized US ambassadors in Europe, asking for information to be used in planning an American aid program. The same message was sent through the War Department to OMGUS, asking what role the Western Zones of Germany could play in West European rehabilitation, what assistance Germany would need and could extend, and how Germany could contribute¹ most to European recovery.

Early in July 1947 the Secretaries of State, War and Navy approved the following statement on Germany's role in European economic recovery:

- a. The United States is willing to have occupied Germany collaborate fully in preparing European proposals. No initiative on the part of the US Zone is called for, but the occupied area must be represented in European planning.

1. Cable, WDSCA to CINCEUR personal for Clay, WARX 80548 of 20 Jun 47, OMGUS Historical File 419/5, KCRC. SECRET

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- b. Where normal commercial relations between Germany and the rest of Europe would involve increased United States expenditures, funds to cover such expenditures should be provided.
- c. Military Government will consult European governments and international organizations to insure that the export program emphasizes goods needed for economic recovery and rehabilitation of Europe.
- d. Substantial transactions which would assist recovery but do not conform to the foregoing principles would be referred to the United States Government for decision.²

The initial European recovery conference held in Paris in July 1947 established the provisional Committee of European Economic Cooperation (CEECE) to formulate European needs for recovery and rehabilitation. This committee decided, at the outset of its operations, to ask the commanders in chief of the occupied zones of Germany for the same information requested from participating countries.³ The CEECE appended to its report of 21 September 1947 a note entitled "Problems Relating to Germany," agreed by those participating countries which had been at war with Germany. This note stated the relation of German recovery to European recovery in the following terms:

"1. For the purpose of drawing up a European balance sheet of resources and requirements, it is indispensable to take account of Germany, since that economy has been, in the past, and by the nature of things will remain, closely tied up with the economic system of other European countries...

- 2. Cable, AGWAR to ONGUS, W 81734 of 10 July 1947, ONGUS Historical file 419/5, KORO. SECRET
- 3. Committee of European Economic Cooperation, General Report, Paris, 21 Sept 1947, Vol. 1, page 10 (Department of State Publication 2930, Sept 1947).

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"2. The German economy must not be allowed to develop to the detriment of other European countries, as it has done in the past. But, if European cooperation is to be effective, the German economy must be fitted into the European economy so that it may contribute to a general improvement in the standard of living. ...An increased production and export of Ruhr coal is in fact essential for European recovery, and both coal and coke should be fairly distributed between those countries, including Germany, which depend on the Ruhr for their supplies. The machinery, raw materials, food and other supplies which are required to increase Ruhr coal production deserve high priority in any program of imports either in Germany, or into Europe as a whole.

"3. Other Western European countries cannot be prosperous as long as the economy of the Western Zone is paralyzed, and a substantial increase of output there will be required if Europe is to become independent of outside support. In planning this increased output, account should be taken of the essential goods which Europe needs from Western Germany, which, like the participating countries, will require help, particularly as the requirements of security will make necessary important changes in the structure of her economy."

Bizonal Germany, the note continued, contained from 8 to 10 million more people than before the war. To achieve economic balance by the end of 1951 it would have to increase its exports above the pre-war level while adopting an expanded, though still austere, import program. It was essential that both the participating countries and Western Germany become self-supporting: "If either achieves viability only at the expense of the other, the European economy will still be unsound." Finally, the German tariff should be revised so as to promote international Trade Organization and other international economic organizations as soon as feasible.

Secretary Marshall, in his Chicago address of 18 November 1947 on "Problems of European Revival and the German and Austrian Peace

4. Appendix B to General Report of CEEC, 21 Sept 1947, Vol. I

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Settlements," emphasized the need for a restoration of German production under proper controls as part of the general European Recovery Program. While it was intended to keep Germany demilitarized and to avoid the creation of economic power that a future German Government could use as a weapon for furthering nationalist policies, the attempt artificially to limit German peacetime production would render impossible the economic revival of Europe. There was an admitted dilemma, said the Secretary, but the solution advocated by the United States was to establish safeguards so that the industrial potential of the Ruhr would be used for the benefit of the European community as a whole. Refuting the charge that the United States had given priority to the restoration of Germany ahead of other countries, Secretary Marshall pointed out that German recovery had lagged so far behind the rest of Europe as to retard the whole effort for European recovery. Industrial production was less than one-half the pre-war rate, and food supplies were seriously below the minimum requirement for health and efficiency. In fairness to the American taxpayer, who had been contributing hundreds of millions of dollars annually to support the US Zone, Germany must be made self-supporting as quickly as possible.⁵

5. "Problems of European Revival and German and Austrian Peace Settlements," address by Secretary George C. Marshall at Chicago, 18 November 1947, reprinted in Story in Documents, pp 9 - 13.

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President Truman's message of 19 December to Congress proposing a program for US aid to European recovery made specific provision for Western Germany. The relationship between aid to Germany under the recovery program and the minimum assistance granted through Military Government under the "disease and unrest" formula was explained as follows:

"The productive capacity of the highly industrialized areas of Western Germany can contribute substantially to the general cooperative effort required for European recovery. It is essential that this productive capacity be effectively utilized, and it is especially important that the coal production of the Ruhr continue to increase rapidly.

"Every precaution must of course be taken against a resurgence of military power in Germany. The United States had made clear on many occasions its determination that Germany shall never again threaten to dominate Europe or endanger the peace of the world. The inclusion of Western Germany in the European Recovery Program will not weaken this determination.

"As an occupying power in Western Germany, the United States has the responsibility to provide minimum essentials necessary to prevent disease and unrest. Separate appropriations will be requested for this purpose for the period through June 30, 1949.

"Above this minimum level, amounts needed to assist in the rehabilitation of Western Germany are included in the over-all estimates for aid to European recovery."

The War and State Departments agreed that the details of integrating the bizonal area into the European Recovery Program would be worked out in Europe. In September 1947 instructions were sent to have a US/UK delegation represent the Bizonia in the deliberations of the CESE. There was at first disappointment in Bizonia when it was learned that Germany would be represented only by the Military Governments. This

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reaction was later overcome in part when German technicians were permitted to work directly with those of other participating countries.⁶

The problem of German economic recovery was intimately connected with the questions of reparations, dismantling of reparations plants and the permitted level of industry. Both Washington agencies and OMGUS were aware of the potential conflict between the reparations program involving removal of German industrial capacity and the recovery program which aimed at increasing German production. For a time it was believed that the dilemma had been avoided by restricting dismantling and removal to plants that were genuinely surplus in the sense that the Germans could not use them in the foreseeable future. Congress, however, did not agree and the dismantling of reparations plants became a major issue. In the hearings and debates and in the policy discussions in Washington and the theater, it became apparent that reparations, the level of industry and recovery were coordinate parts of an overall economic problem demanding integrated treatment.

THE REVISED LEVEL-OF-INDUSTRY PLAN OF 1947

At Moscow in April 1947, after the CFM had reached a deadlock, Secretary of State Marshall agreed with British Foreign Minister Ernest Bevin that the approved level of industry for the Bizone should be revised

6. Cable, WDSGA to CINCEUR, Clay personal from Noce, WAR 85540 of 3 September 1947, CAD Numerical File, RG 122, DRB.
SECRET Decision 215.

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upward, providing additional industrial capacity to assure the self-sufficiency of the area. The new level of industry was to be announced by 1 July 1947, and a new shortened list of plants available for reparations was to be published by 15 August. Passing through Berlin on his way home to Washington, Marshall informed Gen Clay of this decision.⁷

Dispute Between the State and War Departments

Without further guidance from Washington, Gen Clay and his staff joined with British Military Government in developing the new increased level of industry. Initial differences were rapidly resolved by a bipartite working party. The State Department, however, was working on the same problem without reference to OMGUS. On 26 May 1947 it presented a paper to SWNGC containing instructions to be issued to Gen Clay on executing the agreement which Marshall and Bevin had reached in Moscow.

On 13 June Gen Clay cabled that the working party had agreed on a revised level of industry which would make the bizonal area self-supporting. He proposed that "it be announced as the final level of industry plan for US and UK Zones until economic unification is obtained..." Upon receipt of this cable, the proposed SWNGC paper was withdrawn as unnecessary.⁸

7. Decision, pp. 174, 321.

8. Cable, OMGUS to WD, CC 9520 of 13 June 1947-(WD CM-IN 2121 and 2228), CAD numerical file, RG 122, DRB; Memorandum, Gen Noce, Chief, GAD to AS/W Petersen, 15 July 1947, WDSGA decimal file 387.6, RG 122, DRB.
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The revision of the German level of industry was related not only to the question of reparations but also to that of restitution, since numerous items of capital equipment in German factories were the subject of Allied claims. A major dispute over both subjects arose between the Department of State and OMGUS, with the War Department acting as Washington advocate for the views of Gen Clay. As Col Cheseldine of the Planning Branch of CAD reported to Gen Noce, "the delay in making a governmental decision, to which indecision the War Department is a party, has placed Gen Clay in an untenable position from which he has thus far unsuccessfully sought escape."⁹

The issue between the Departments of State and War, as outlined by Col Cheseldine, was as follows:

"...The economic merger of the US-UK Zones has resulted in the establishment of a new level of industry. This level...will reduce the industrial equipment available for reparations. Reduction in 'availabilities' will require a revision of lists submitted to IARA. Meanwhile, restitution policies directed from Washington would require Gen Clay to make restitution 'on top of' or 'in addition to' reparations removals, thus affecting the agreed level-of-industry.

"The State Department has evidenced a philosophy which stems from an assertion that 'we are committed to a reparations program,' and 'we must retribute regardless of its effect upon the level-of-industry,' and 'we cannot deny reparations or restitution merely to benefit the German level-of-industry."

"The problem, then, is to establish a policy of priority for (a) level-of-industry, (b) restitution, (c) reparations."

9. Memorandum from Col. R. M. Cheseldine, Chief, Planning Branch, CAD to Gen Daniel Noce, Chief, CAD, 14 July 1947, CAD decimal file 361.0 Germany, RG 122, DRB. SECRET

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The policy on restitution to ex-enemy countries, Cheseldine continued, was too broad in scope and not properly coordinated with British policies or with the peace treaties. Referring to several cables from Gen Clay which were lying unanswered in the State Department, Cheseldine noted that, except for the 2 July level-of-industry cable (see below), "all we have been able to get from the State Department thus far is a remark from Mr. Gross of Gen Hildring's office that 'Clay and State are miles apart in interpretation of restitution policies'." ¹⁰

Gen Clay's instructions were to reach agreement with Gen Robertson on the revised level of industry and publish the results in Berlin. Although he kept Washington informed of the negotiations, there was no requirement that he submit the proposed agreement for approval in Washington. Since his questions on reparations and restitution had remained unanswered, he was forced to use his own judgment. This was that the most important task of Military Government was to make Bizonal Germany self-supporting.

On 2 July 1947, however, a cable prepared by the Department of State was sent to Gen Clay, commenting first on the level-of-industry plan with respect to various industries. The cable then stated that "remarks above are subject to general US reservation on which we cannot comment technically from here that new level of industry plan will produce substantial reparation deliveries from bizonal area to IARA countries." The United States, the cable asserted, was "committed to deliver...capital equipment...at expense of future German standard of living." Gen Clay's position was accepted "on

10. Ibid.

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assumption that reparations demands of IARA countries are not being sacrificed to long run standard of living benefits to Germany." The cable concluded by urging speed in resolving remaining disagreements and joint publication of the agreed level-of-industry plan by the US and British delegations at Berlin and in the Inter-Allied Reparations Agency.¹¹

Gen Clay replied by raising the basic question whether US policy intended to satisfy reparations requirements first, or to establish a new level of industry with reparations from whatever industrial excess might result therefrom. He stated:

"If the delivery of such plants to IARA nations is the governing factor...request you advise us as to the minimum demand deemed essential for IARA nations, as this would automatically fix the level of industry to be left in Germany. Our calculations have not been based on delivering any specified quantities to IARA nations. They have been on the need for a German industry which will provide a self-supporting economy with a low but reasonable standard of living which will contribute to European recovery..."¹²

The issue presented by Gen Clay called for either a clearcut statement of policy by Washington or a clear authorization by Washington for the determination of policy in the theater. The planners in the Civil Affairs Division of the War Department recommended that Gen Clay be authorized:

- "(a) To establish a new bizonal level of industry.
- (b) To declare a new list of plants and equipment excess to that level, regardless of any previous declarations.

11. Cable, WD to OMGUS, WARM 81354 of 2 July 1947, CAD numerical file, RG 122, DRB, SECRET

12. Cable, OMGUS to WD, CX-9790 (CM IN 926) of 6 July 1947, CAD numerical file, RG 122, DRB, SECRET

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- (c) To hold up all allocations and deliveries until all restitution claims are filed and investigated so that equipment restituted could be replaced from the reparations list.
- (d) To resolve restitution to ex-enemy countries in accordance with peace treaties and quadripartite agreements."

As Col Cheseldine pointed out, "CAD has been prevented from discussing these basic issues with those in the State Department who are at the economic working level because our contacts are with the Hilldring Office." There were several individuals in the German Affairs Section "who hold strong opinions on reparations and restitution which are not in accord with those of Gen Clay. It is known that dangerous implications often appear in cables which they draft and they always cause Gen Clay to reply in tart language." Cheseldine recommended that the issue be settled by the Committee of Three, consisting of the Assistant Secretaries of State, War and Navy. 12a

The Revised Level of Industry is Published in Spite of French Objections

Gen Clay, who had received no further guidance after the cable of 2 July, completed his negotiations with Gen Robertson. On 13 July he cabled that an agreement stating new levels for each category of industry had been reached and would be formally signed and released to the press on 16 July 1947, an advance copy going to the French as a matter of courtesy. Gen Clay added that unless directed to the contrary, he would adhere to his previous decision to revise the list of reparations plants and equipment,

12a. Memorandum from Col R. M. Cheseldine, Chief, Planning Branch, CAD to Gen Daniel Noce, Chief, CAD 14 July 1947, CAD decimal file 361.0 Germany, RG 122, DRB. SECRET

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even though the Inter-Allied Reparations Agency would not be pleased. News of the agreement was not tightly held, since the Berlin newspapers of 13 July carried the full story with the announcement that the agreement would be formally released three days later.¹³

Late in the afternoon of 14 July 1947 the State Department delivered to the Civil Affairs Division a draft cable directing Gen Clay to suspend finalizing and publishing the revised level of industry until he had received an answer to his 6 July cable on the basic issue of "reparations versus level of industry." Gen Noce, however, refused to dispatch the cable, which he believed would give Gen Clay the impression that his policy of placing the level of industry first and reparations second was about to be reversed. If such were indeed the case, Gen Noce considered, the reversal would have to be decided by a higher level.¹⁴ As far as Assistant Secretary of War Petersen was able to ascertain, both the Secretaries of War and State supported the level of industry agreed in the theater.

In the meantime, however, a new element intervened to delay publication of the revised level of industry plan: a formal protest from the French Government. There was no intention to withdraw or modify substantially the level-of-industry agreement because of French objections. At the

13. Cable, OMGUS to WD, CC 9862 of 13 July 1947, JAD numerical file, RG 122, DRB. SECRET; Memorandum from Gen Noce, Chief, JAD to Mr. Petersen, AS/W, 15 July, 1947, WDSCA decimal file 387.6 Germany, RG 122, DRB. SECRET

14. Memorandum from Noce to Petersen as cited in Note 13.

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same time, however, the desire for economic merger of the French Zone of Germany with Rizonia made it necessary to deal with the situation tactfully, even at the cost of some delay. Secretaries Marshall and Bevin therefore agreed to suspend announcement of the revised level of industry until after a conference at which the French could express their views. This conference was held in London from 22 to 27 August 1947.

The Department of State instructed Ambassador Douglas, the US representative in the London level-of-industry talks, that while the French Government was to be permitted to express its views, the United States and Great Britain alone would make all decisions regarding the bizonal area until the French might agree to join. The instructions continued as follows:

"You should support vigorously the level of industry agreement reached by Clay with Robertson and defend it against any suggestions from other nations for modification. If in your judgment there is a genuine threat to the success of the European economic plan or if democracy in France will be threatened unless changes are made in the new level of industry you should transmit to the Dept the views of yourself and your adviser, together with the French and British views. Final determination of the US pos will be coordinated with the WD here."

If the French should raise the question of joining their zone with the Bizone, Ambassador Douglas was instructed to say that while French adherence would be welcomed, decision on the bizonal level of industry could not be delayed pending discussion of such a proposal. ¹⁵

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15. Cable, from WDSCA from Draper to CINCEUR personal for Clay, WAR 84572 of 19 Aug 1947, repeating State Dept instructions to Ambassador Douglas, CAD numerical file, RG 122, DRB. SECRET

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In the meantime, US and British Military Government had been developing a plan for returning the Ruhr coal mines to German management under an over-all German control organization supervised by the occupying powers. Although the French were concerned with the allocation of coal, they were not a party to the negotiations on the organization of the German coal industry within the US and British Zones. Much to the surprise of the War Department, the diplomatic note sent by the Department of State agreeing to the level-of-industry conference invited discussion on "Management and Control of the Coal Industry in Germany." Assistant Secretary of War Petersen hastened to cable to Gen Clay:

"This never approved by us and unknown to us until today. This idea has never even been hinted to us by State. I am at complete loss to know what to do." 16

In the August 1947 level-of-industry talks the US and British delegations maintained their positions. A joint US/UK/French communique of 28 August pointed out that German rehabilitation was not to take precedence over but was to be coordinated with the rehabilitation of Europe. The question of international controls over the Ruhr was reserved. It was made clear, however, that the revised level-of-industry plan would be placed in effect in Bizonia without delay, notwithstanding French objections. 17

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16. Cable, ACGWAR personal from Petersen to CINCEUR personal, WAR 82764 of 25 July 47, OMCUS decimal file 091.3, KCRG. SECRET (downgraded from TS).
 17. Level-of-Industry Talks, Aug 22-27, 1947, Communique issued jointly by the US, the UK and France, 28 Aug 1947, Dept of State Bulletin, 7 Sept 1947, pp. 467-472; reprinted in Decade, 562-563.

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The industrial capacity to be retained in Germany under the 1946 level-of-industry plan would have sufficed for production equal to 55 percent of the 1938 level or between 70 and 75 percent of 1936 production. The new plan retained sufficient additional capacity in the bizonal area to approximate the German level-of-industry in 1936, a year of neither boom nor depression.

The sharp reductions of the 1946 plan in the metals, machinery and chemical industries were modified so as to leave a capacity sufficient to produce from 5 to 10% less than in 1936. The new plan was based primarily on the requirement to make bizonal Germany self-supporting. Consideration had been given to the increase in population due to the influx of expellees, changes in price relationships, and the need for increasing exports from Bizonia by 15% above the level of 1936.

In the basic steel industry, however, the 1947 level-of-industry plan still provided for a significant reduction in capacity. Although the permitted level of industry had been raised from 7.5 million tons for all of Germany in the 1946 plan to 10.7 million tons for the US and British Zones, this figure was only 70% of the 1936 production of 14.9 million tons and only 56% of the existing steel capacity of 19.2 million tons. Thus 44% of the bizonal steel capacity was left available for restitution, reparations, or destruction.

The revised level-of-industry plan for the US and British Zones was published on 29 August, 1947.¹⁸ In October, 1947 the US and British

18. Dept of State Bulletin, 7 Sept 1947, pp.467-472; reprinted in Decade, 563-568, also in Story in Documents, 357-362.

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Military Governors published a revised reparations list containing 683 war plants and advanced delivery plants that had already been listed for reparations, plus an additional group of surplus peacetime plants available for reparations from the bizonal area. The revised list contained a total of 859 plants as compared with about 1500 considered for reparations under the 1946 level-of-industry. The net effect was to save approximately 641 plants for the Germans.¹⁹

REPARATIONS DISMANTLING BECOMES A POLITICAL ISSUE

The Reparations Program is Criticized in Congress

The inclusion of Germany in the European Recovery Program committed of US funds to develop German productive capacity. This occasioned criticism that the reparations program, which involved the dismantling of industrial capacity, was being conducted at the expense of American taxpayers.

The first political skirmish over reparations occurred even before the Marshall Plan had been announced. In April 1947, when there was a critical shortage of fertilizer in the United States, Senator Eastland was alarmed by the dismantling of German fertilizer plants and the export of

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19. Three Years of Reparations, Special Report of the Military Governor, OMGUS, Nov, 1948, p. 3. The Reparations List, which covered not only the bizonal area but also the French Zone, provided for plant dismantlings as follows: War plants 336, ferrous metals 94, non-ferrous metals 21, chemicals 68, mechanical engineering 327, electrical engineering 4, shipbuilding 4, power plants 4, building materials 1, total 859.

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American fertilizers. The destruction, said Senator Eastland, was at the expense of American farmers who "over large areas in the United States are actually not able to secure fifty percent of their fertilizer needs." He offered an amendment to the First Deficiency Bill for 1947 providing:

"...that the Secretary of War is authorized and directed to issue orders to the military and civilian personnel of the United States engaged in the occupation of Germany immediately to discontinue any program for the dismantling of manufacturing plants or other facilities in Germany used for the production of fertilizer or fertilizer ingredients." 20

Although the Eastland amendment received some support from both parties it was defeated on a point of order raised by Senator Knowland, who felt that Congress should not tie the hands of Gen Clay. A joint resolution to the same effect introduced a few days later was killed in committee. As Senator Gurney observed, however, the debate had served its purpose since the War Department could "without further notice from the Congress, leave those plants in being." 21

There was a lull in Congressional discussion of reparations while the revised level-of-industry plan was being developed. The plan, when it appeared, did not settle the reparations question, since even COMUS would have preferred a steel capacity higher than the 10.7 million tons that the British (who now took a more restrictive position than did the United States) were willing to accept. 22

20. Congressional Record, 24 April 1947.

21. Congressional Record, loc.cit.

22. Decision, 321-322.

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Congressional interest in occupation policy increased. Much of this interest revolved around the question whether plant dismantlings, even at a reduced rate, did not hamper European recovery and increase the burden on US taxpayers. This was, for instance, the view of Senator Bridges, who otherwise approved generally of occupation policy and administration. A cable of 25 September, 1947, dealing with the subject of Military transport for visiting Congressmen, mentions trips to Germany by eleven separate Committees and Subcommittees of the Senate and the House. ²³

So far as reparations and the level of industry were concerned, the most important Congressional committee that visited Germany during the fall of 1947 was the House Select Committee on Foreign Aid, headed by Representative Herter, which studied the proposed European Recovery Program prior to its consideration by Congress. The Herter Committee had assembled a large staff of research analysts and consultants under the direction of Professor William Y. Elliott of Harvard and later produced a series of elaborate geographical and functional reports totalling 883 published pages. ²⁴

23. These Committees were: Senate and House Armed Services Committees; War Dept Subcommittees of Senate and House Appropriations Committees; Senate Select Committee to Investigate the National Defense Program; House Select Committee on Foreign Aid (Herter Committee); Food Shortages Subcommittee of House Agricultural Committee; Senate Foreign Relations Committee and House Foreign Affairs Committee and their Subcommittees; House Inter-State and Foreign Commerce Committee; and Senate Judiciary Subcommittee on Immigration and Naturalization. Cable, CSLID to HQ EUCOM WARK 87081 of 24 Sept 1947, CAD numerical file, RG 122, DRB. RESTRICTED. Decision 237.

24. Final Report on Foreign Aid, 1 May, 1948, House of Representatives Report 1845, 80th Congress, Second Session.

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The full Herter Committee spent several days in Germany. Its Subcommittee on Germany headed by Representative Francis Case, studied German and Austrian economic problems in the field for several weeks, and became extremely critical of continued reparations removals. It recommended that plant dismantlings be suspended pending a full Congressional study of the question and that the revised level-of-industry plan be further reviewed in terms of the needs of European recovery. 25

ERP Hearings Provide the Occasion for Debate on Reparations

While the full European Recovery Program was being developed, Secretary of State Marshall submitted to the House Foreign Affairs and the Senate Foreign Relations Committee on 10 November 1947 a proposal for interim aid. This resulted in the Foreign Aid Act of 1947, approved 17 December of that year. Although the interim program was limited to Austria, France and Italy, its discussion became the occasion for extensive criticism of the reparations program and the punitive theory of occupation that had contributed to it. On 24 November, 1947 Representative Vursell stated that most members of the Herter Committee agreed that United States difficulties in Germany and Western Europe stemmed from Yalta, Potsdam and the Morgenthau Plan. Quoting a State Department letter of 17 November

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25. The Subcommittee consisted of Francis Case, South Dakota, Chairman; John M. Vorys, Ohio; Charles W. Vursell, Illinois; Eugene E. Cox, Georgia; Overton Brooks, Louisiana; W. Y. Elliott, Staff Director, Carl J. Friedrich and George S. Pettee, Staff Consultants. See "Report on Germany" Economic Recommendations, Final Report of Foreign Aid, pp. 120-127.

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indicating coal exports of about 38 million tons from the United States to Europe during 1947, Vursell pointed out that millions of tons of coal and steel could have been provided from Germany. The export of 800 locomotives to Germany recommended by the OEEC was pointless, since the Germans could build their own. ^{25a} Representative Case took the occasion to criticize the high cost of the U.S. contribution to the bizonal economy.

In the Senate Appropriations Committee's hearings on the interim aid program, criticism centered around the fact that reparations were still being shipped to the Soviet Union and its satellites. The hearings revealed uncertainty concerning the legal status of the Potsdam Agreement, as shown by the following exchange:

Senator Saltonstall /to Secretary Royall/: "What power have we in your opinion, Mr. Royall, as Congress to change this situation and to stop it if we so desire, and if so, how do we go about it? Can we simply cut the appropriation, or can we do it by advising you as to the feeling of this committee and Congress, or by a resolution in Congress...?"

Secretary Royall: "It would be my opinion... that if we are obligated by treaty to furnish any of these reparations, that could not be changed by congressional action, unless there were a violation of the treaty."

Senator Knowland: "This is not a treaty. This is an executive agreement entered into at Potsdam which was never ratified by the Senate of the United States... In the second place, if there has been a breach of the agreement, I think they would breach it entirely, and it would not merely be the Russians who would want to get out from under it."

"Consequently, it would seem to me if the executive branch of the government were so inclined, they could very

25a. Congressional Record, 24 Nov 1947.

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strongly take the position...as long as that breach exists on the other side, there is no longer any obligation whatsoever to send as much as a single machine tool into the Russian area until they live up to their part of the agreement that says Germany shall be treated as an economic unit." 26

Senator Bridges challenged a statement by Secretary of the Army 27 Kenneth C. Royall that shipments were no longer going from the US Zone to Russia. Before his committee had left for Germany, a State Department official had asserted that dismantled plants would no longer be sent to Russia and its satellites. In Germany, however, the committee had received the Bavarian Economist, published by OMGUS, showing that the Soviet Union and four satellites were five of the six countries currently receiving the largest reparations shipments.

Senator Bridges: "There is a lot of duplicity in these things. The information I believe you are giving and the information of a lot of people is not correct, because these are the August 1947 shipments.

.....

"I agree with completing the demilitarization, but I would blow them up rather than send to Russia so that they might be used as a threat to us and the peace of the world. I cannot conceive why we have done this."

26. "European Interim Aid and Government and Relief in Occupied Areas": Hearings before the Committee on Appropriations - U.S. Senate, 80th Congress, 1st session, pp.673-4.

27. The War Dept (minus the Air Force) became the Dept of the Army in Sept 1947.

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In the US Zone, Bridges continued, 42 million out of 45 million reichsmarks worth of property had already been delivered to Russia. Later in the hearing, the Senator condemned strongly the continued shipment of lend-lease materials to the Soviet Union and criticized Assistant Secretary of State Willard Thorp for requesting Senatorial approval of such shipments. ²⁸

On 19 December 1947, in debate on the Third Supplemental Appropriation Bill for the fiscal year 1948, the Senate resumed discussion of dismantling. Senator Bridges offered an amendment providing that for 90 days no part of the appropriation should be available for the compensation or other expenses of personnel engaged in dismantling non-military plants in the Bizone. The amendment, said Senator Bridges, was intended to publicize the fact that large quantities of reparations were still going from Bizonal Germany to the East. He conceded that the amendment might have no effect in the British Zone and perhaps not in the US Zone

"...because American officials have been so anxious to get this material to Russia, Yugoslavia and the Soviet Allies that they have been rushing double time to dismantle those plants and get them across the line."

Senator Knowland agreed. The amendment would be the first statement of policy by the Congress and would serve notice on the State Department

"...That we are becoming sick and tired of some of the policies being followed...at the same time when the Department [of State] is coming to us and asking for the support of the Emergency Aid Program and of the Marshall Program...If this debate serves a warning to the Department that it had better adopt a consistent policy, I think the job will have been well done." ²⁹

28. Ibid. pp. 675, 677, 801.

29. Congressional Record, 24 Nov 1947.

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Senator Vandenberg opposed the Bridges Amendment on the grounds that it would alienate our Allies and might lead to reparations from current production, which the United States had rejected. He promised, however, that in the forthcoming debates on the European Recovery Program the entire reparations issue would be thoroughly aired, whereupon Senator Bridges agreed to withdraw his amendment.

Congress Investigates the Dismantling Program

The hearings during December 1947 indicated that certain members of Congress questioned whether the determination by Military Government of necessary and "surplus" plants had been based on adequate economic investigation. After hearings before the House Foreign Affairs Committee, Lawrence Wilkinson, Chief of the OMGUS Economics Division, cabled from Washington back to Berlin that committee members were concerned over dismantlings of steel fabricating capacity in relation to the large demands for strip, sheet and tube steel in the European recovery plan. If raw steel in blooms or billets could be imported from the United States, with top priority given to labor and power, German steel fabrication could be stepped up beyond the capacity stipulated in the new level of industry plan. If the plants in question should be dismantled, on the other hand, the capacity going for reparations would be immobilized and available neither in Germany nor in recipient countries just when its products were most needed for the ERP.

Other cables dispatched during December 1947 indicated that Congress

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proposed to examine the reparations program in increasing detail, and that OMGUS would have to give specific facts and figures. Some confusion was caused by newspaper editorials interpreting Secretary Royall's testimony before the Senate Appropriations Committee to mean that the Department of the Army did not really support the government's reparations policy. Under Secretary Draper hastened to assure Gen Clay that this was not the case. ³⁰

On 24 November 1947, Representative Case introduced House Resolution 365, providing for an inquiry into the dismantling and removal of plants from Germany. This resolution, which was passed on 18 December, 1947, contained a substantial list of questions to which OMGUS was required to give at least an interim answer through the War Department by 5 January 1948. As Colonel Cheseldine commented to OMGUS in a teleconference on this resolution: "Temper of Congress such that State and Army must comply in all details." In the meantime, House Resolution 364, providing for suspension of dismantling in Germany, was being considered by the House Committee on Foreign Affairs.

During the latter part of December, 1947, the Economics Division of OMGUS was largely occupied in assembling the information called for by House Resolution 365 as well as more detailed data called for by Staff Director Elliott of the Herter Committee. The Committee showed particular interest in German plants producing "bottleneck items" such as fabricated steel, oil

30. Cables, WD to OMGUS, War 91822 of 8 Dec 1947, CONFIDENTIAL War 92045 of 10 Dec 1947; CONFIDENTIAL, War 92286 of 13 Dec 1947. SECRET, and WARX 92379 of 16 Dec 1947, CONFIDENTIAL; CAD numerical file, RG 122, DRE.

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industry, transportation and mining equipment. It planned to recommend to Congress special appropriations for the rehabilitation of these plants. ³¹

The State Department and OMGUS Resist Pressure to Reduce Further The Dismantling Program

Having fixed a revised level of industry and a reduced but nevertheless substantial list of reparations plants, both the State Department and Gen Clay resisted pressure to suspend or reduce further the dismantling program. On 26 November 1947 Acting Secretary of State Lovett issued a statement denying that the dismantlings under the revised level-of-industry plan would interfere with European recovery or divert substantial amounts of German labor and materials from constructive use. The full use of existing industrial capacity in Germany, said Mr. Lovett, was prevented by shortages of food, fuel and raw materials which were likely to persist throughout the period of the European Recovery Program. Germany could not use its total industrial capacity without absolute priority over other European countries in the allocation of scarce materials, and the utmost German effort would be required to attain even by 1951 the volume of output envisaged by the revised level-of-industry plan.

Mr. Lovett pointed out that capital removals were the only way for Germany to pay even partial reparation for the damage inflicted on her victims.

31. Teletype Conference #TT 8920 of 31 Dec 1947 between CAD, Washington, (Col Cheseldine) and OMGUS Berlin (Mr. Wilkinson,) OMGUS Telecon File, KCRC. SECRET

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The contemplated removals involved largely plants established for war purposes and unnecessary for the German peacetime economy. Since other countries had indicated they could use this equipment, the net effect of reparations would be to reduce rather than increase the recovery burden on the United States. Finally, the revised level-of-industry plan would not permanently limit German production and the German standard of living. ³²

Gen Clay amplified Lovett's arguments in a statement of his own, prepared in answer to Congressman Case's question why certain plants had been declared "surplus." While admitting that the restoration of the 1936 level-of-industry would provide a productive output per capita of only 75% of that of 1936, Gen Clay maintained that this level would permit exports sufficient to pay for essential imports including food. He repeated Lovett's arguments that the Germans could not use the "surplus" capacity, and that the equipment in question would promote European recovery faster in countries other than Germany. While Clay was ready to consider substitutions where a particular plant was shown to be essential to the German economy, it was his conviction that "we have left to Western Germany all of the industrial capacity it can use."

32. Objectives of Reparation Removals Program: Statement by Acting Secretary Robert A. Lovett, 26 November 1947, Story in Documents, 373-74.

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Gen Clay indicated that a further reduction of deliveries would be regarded as a breach of the Paris Reparations Agreement, especially by France, which was already concerned about the bizonal level of industry. Finally, the existing list had at least the virtue of being definite. The German owners of plants to be retained could put these plants to work and at the same time the nations belonging to the Inter-Allied Reparations Agency knew what they might expect from Germany. "This final solution is essential and further delays and studies could only add uncertainty and doubt to a program which needs resolving now." 33

The situation with respect to reparations and level-of-industry policy in Washington and in the theater at the end of 1947 was summed up in a teleconference between Under Secretary Draper and Gen Clay as follows:

"Under Secretary Draper: In answer to information to Senator Vandenberg that reparations dismantling proceeding as given us in your cable the Senator replied that War and State should be prepared to speak conclusively and specifically regarding this whole question, as to what further dismantling is contemplated and particularly whether any further dismantling in the American Zone contemplates shipments to Soviet Russia.

"State talked again with British Monday on question shipments east with British still arguing they should continue. Lovett pointed out strength Congressional opposition but there was no conclusive result. Final U.S. decision still awaiting Marshall's return to Washington and probable Cabinet discussion.

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33. Ltr, Under Secretary of the Army W. H. Draper, Jr. to Rep. Francis Case, Chairman of Austria-Germany Subcommittee of House Select Committee on Foreign Aid, 8 Dec 47, WD AG Decimal File 091 Germany, DRB. SECRET

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*General Clay: As you know, I stopped further allocations and movements east. My views have not changed. However, regardless of deliveries, dismantlings must be pushed to earliest possible conclusion. We are dismantling all plants now as rapidly as we can reach them. Stopping would be bad politically here but you may feel failure is defiance of Congress. I stand by my conviction that the capacity to be removed is in excess of German ability to utilize in the next five years or nine and that international obligations to Western Europe would be thrown out if we stopped reparations. I do not see how we can control British except by financial pressure which is U.S. foreign policy and not our business. However, except for question of Russian delivery, Congress is raising artificial issue. Even Russian deliveries are three-fifths a sale with only ten percent reparations.

"Under Secretary Draper: ...There are being sent you copies of all testimony by Army before Congressional committees and copies of Congressional Record on subject of reparations. In this connection you will recognize attitude of Foreign Affairs and Appropriations groups as to question advisability any dismantling or delivery of any plant which under any circumstances could be made to produce items considered most critical under Marshall Plan requirements...Herter Committee trying to find formula to delay all dismantling of critical item plants and to deny further deliveries to east while satisfying reasonable reparations deliveries to other IARA nations. Foreign policy considerations most involved and Herter Committee recognizes Army has no authority to change present policy but committee determined to get enough factual data on possible production under most favorable conditions, which conditions, according to committee representative, it proposes to urge Congress to make possible by special legislation, to cause Congress to take prompt action which may change entire reparations program. For this reason it is believed most important OMGUS be prepared to supply full data on present production capacity...We realize difficulties involved but are being faced with rising wave of opposition to present program.

"General Clay: You cannot run German economy by operation critical plants beyond capacity essential in a balanced recovery program. Maintaining additional capacity does not make coal, steel, transport, and manpower available. If Dr. Elliott wants to run this economy, ask Congress to send him over. We can supply information on British Zone plants only to extent it is given to us. We will do all we can. However, I do not want to be in position of defending or opposing reparations deliveries to western countries....

"Under Secretary Draper: Understand...fully. I simply wanted to keep you up to date. Next move on reparations is up to State Department....

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"General Clay: Please understand that in U.S. Zone we continue to dismantle until we receive orders to the contrary. All in all this reminds me of my April '45 prophecy that first we would be condemned for softness and then for hardness. I am afraid we are too hard-boiled now to care much about either.

"Under Secretary Draper: I had the same feeling of the changing world when defending reparations removals before committees of Congress.

"General Clay: ...Elliott should be informed we are not resisting rational inquiry, but simply cannot force other military governments to undertake large tasks of compilation. ³⁴

The arguments set forth by Under Secretary Lovett and Gen Clay were used in formulating the initial State-War position in the further debates on reparations and dismantling described later in this chapter. As of the end of 1947 it was clear that the interchange so far had set the stage for a policy dispute that was to continue for some time to come. It continued, in fact, throughout the remaining life of Military Government.

PROBLEMS OF ERP POLICY AND ADMINISTRATION

The fitting of occupied Germany into the European Recovery Program presented a number of difficult organizational problems during the latter part of 1947 and the first half of 1948. Some of these problems were the subject of interdepartmental discussions, some of them became issues between Washington and the theater, and some were subjects of Congressional interest.

34. Telecon TT 8919 of 31 Dec 47, between Under Secretary Draper and Gen Clay, OMGUS Telecon File, KCRG. SECRET

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The Issue of Fiscal Responsibility

So long as occupation administration remained a military affair, the Department of the Army bore complete administrative and fiscal responsibility for Germany. It was required to appear before Congress to explain and justify appropriation requests, and it was held responsible for the success of the occupation. Although the Army had attempted repeatedly to relinquish occupation administration to a civilian agency, and although plans for a transfer to the Department of State were being developed by officials of the two departments, Acting Secretary of State Lovett reiterated as late as 21 October 1947 the unreadiness of the Department of State to assume responsibility for occupational government. Pentagon officials considered that the Department of the Army could not discharge its responsibility for Germany effectively unless it should receive in its own budget and be free to allocate the appropriations required for Germany. ³⁵

The European Recovery Program as a whole, however, was a part of the general foreign policy of the United States. In terms of this overall policy, occupational administration of Germany could not be "successful" except as it furthered the policies of the United States for the entire European area. The State Department argued, therefore, that complete policy control over expenditures could not be granted to the Army, but should be exercised by the agency

35. Memo, Lt Gen Lauris Norstad, Director, P & O Division, to Under Secretary of the Army, 29 Oct 47, P & O Decimal File 091 Germany, DRB. SECRET

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or agencies charged with the conduct of foreign policy.

The Department of the Army held that all funds for Germany, even those related to a general European rehabilitation program, should be included in the Army budget. It recognized that appropriation requests would have to be coordinated with those for rehabilitation of the other countries, that items in short supply would have to be allocated by an overall programming agency, and that Army procurement and shipping activities would have to be subject to policy control by the agency responsible for minimizing undesirable effects of ERP exports on the American economy. These concessions to integration could be made without sacrificing the control which the Department of the Army considered an essential adjunct to responsibility for the occupation. ³⁶

As it turned out, however, Marshall Plan funds for Germany were included in the overall ECA budget rather than the Department of the Army budget, which contained only the usual GARIOA appropriation. ³⁷

The Question of Policy Control

The question of overall control of American economic activities in

36. Ibid.

37. Government and Relief in Occupied Areas. The fiscal year 1949 estimate, submitted to Congress 12 January 1948, provided approximately \$710 million for Germany, a cut of \$175 million by the Budget Bureau having been restored at the request of Secretary Royall and Under Secretary Draper.

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Europe and of German policy in particular was discussed at length in the hearings held by the Senate Committee on Foreign Relations on the Economic Cooperation Act of 1948. Secretary Marshall expounded the State Department view that ECA operations affecting foreign policy should be conducted by the Administrator "under the direction and control of the Secretary of State." The wartime executive order establishing the Foreign Economic Administration, Marshall said, was unsatisfactory. Even though it provided that the powers and functions of the FEA should be exercised in conformity with the foreign policy of the United States as defined by the Secretary of State, the latter had no sanction for enforcing his decisions. "In this particular case the interpretation by the Foreign Economic Administration was that Mr. Hull could not be two Secretaries of State. Senators Vandenberg and Connally agreed, but thought that the Administrator should be authorized to go to the President on a point of disagreement. 38

A few days later, John Foster Dulles said that policy authority for Germany should be put in the hands of the State Department, rather than in the Department of the Army where, according to Dulles - it was currently located. This would enable the Secretary of State to talk on equal terms with other foreign ministers which, Dulles indicated, he was unable to do under the existing

38. Hearings before the Committee on Foreign Relations, U. S. Senate, Economic Cooperation Act of 1948, Thursday 8 January, 1948, Testimony of Sec of State George C. Marshall, pp 17-21.

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arrangements. Gen Clay and Military Government, he said, should for the time be left in Germany, but policy directives should be sent directly from the State Department rather than through the War Department. ³⁹

Section 105 (b) of the Economic Cooperation Act of 1948, which governed the Washington relations between the Department of State and the ECA, however did not clearly establish the primacy of the Secretary of State. It provided that the Administrator and the Secretary of State would keep each other fully and currently informed on matters within the scope of their respective duties pertinent to the duties of the other. Disagreements, however, had to be referred to the President and there was no provision for the contingency that the President might fail to decide. Section 109 (a), however, dealing with the ECA Missions abroad, provided a certain coordinating authority for the chiefs of the United States diplomatic missions, who were senior in rank to the ECA Mission heads. Even here, the Department of State was not given the clear-cut authority that Gen Marshall had advocated.

Authority to decide the forms that American economic aid to any particular country should take was vested in the Economic Cooperation Administrator, but with an important qualification. Section 111(c) (1) provided that the Administrator should make such determinations in consultation with the National

39. Hearings as indicated in foregoing note, Tues 20 Jan 48, Testimony of Mr. John Foster Dulles, pp 612-15.

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Advisory Council on International Monetary and Financial Problems. This was a Cabinet-level body under the chairmanship of the Secretary of the Treasury, which had been established by the Bretton Woods Agreements Act. The ECA Administrator was added to the Council by Section 106 of the ECA Act of 1948. As it later turned out in connection with the bilateral agreement on aid to Germany, Administrator Hoffman was not disposed to over-ride the opinions of the Council. ⁴⁰

Washington Participation in Detailed Administration

The communications between Washington and OMGUS on ECA program development and administration form a voluminous set of records. To extract even a condensed account of the administration of the German phase of the Marshall Plan and the related GARIOA Program would be an entire study in itself. Without going into detail, however, it is possible to note one significant fact: the large volume of technical detail dealt with in Washington.

As has been observed, OMGUS was given only the broadest and most general type of guidance in many sectors of occupation administration. In the field of civilian supply, however, Washington agencies including both the Department of the Army and the Economic Cooperation Administration engaged in detailed administrative activity. This centralization of administration in Washington cannot be attributed to any apparent desire on the part of the Department of the Army to withhold authority from the theater. It was, rather, the result of

40. Economic Cooperation Act of 1948, Decade, pp 1299-1321

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a series of circumstances, some of which may be enumerated briefly:

(1) Increasingly detailed budgetary scrutiny by Congress. -

As the extent of the US commitment to support occupied Germany became increasingly apparent, Congress demanded more detailed justifications for appropriations. ERP budgets were scrutinized item by item, as were the GARIOA appropriations to the Department of the Army. As a result, Washington had to concern itself increasingly with budgetary details which might have otherwise been left to OMNUS.

(2) Procedures of the Economic Cooperation Administration. -

The procedures of the Economic Cooperation Administration called for the processing of individual transactions in Washington, where they were reviewed by ECA for conformity with overall policies and plans. Central administrative control was thus extended into fields of procurement that might otherwise have been left to the theater.

(3) Allocation problems. - When the European Recovery Program was started in 1948, there were still shortages of foodstuffs as well as of numerous raw and semi-finished materials and manufactures. Since the European Recovery Program established unprecedented demands, the ECA was charged with controlling procurement to avoid competitive bidding, which might otherwise have thrown United States and international markets into confusion. Furthermore, numerous commodities were allocated by national and international authorities to which the requirements of various claimants had to be presented.

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Under the influence of these factors, the Department of the Army became involved in numerous problems of economics, supply, finance and procurement, which were the subject of communications between Washington and the theater during the ECA period.

In March 1948, two members of the OMGUS Economics Division were sent to Washington to establish a bizonal liaison office for ECA affairs. Their function was:

"to assist in establishment of organization in Washington capable of handling presentation of bizonal requirements, and production capabilities, as well as pressing for allocations of scarce materials and setting up effective procurement channels and procedures... Their job is to see to it that the Washington organization is properly geared to bizonal policies and procedures and that channels of communication are established on most suitable basis, with particular emphasis on prevention of duplication of effort both here and in U.S." 41

The bizonal ERP Office established in Washington was later expanded by the addition of German personnel working under Allied supervision. After the establishment of West German Government in 1949, it was taken over entirely by the Germans.

Political Procurement

The European Recovery Program was by definition political as well as economic. The Economic Cooperation Administration was from the very beginning beset not only by demands for scarce commodities but also by requests that ERP

41. Telecon, TT 9191 of 9 Mar 48, OMGUS Telecon File, KCRC. SECRET

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funds be earmarked for buying commodities in temporary surplus. The ECA was disposed to lend a sympathetic ear to Western European countries that had formerly sold goods or services to Germany, when these countries suggested that the German ERP allotment be used to restore such trade. United States producers were no less anxious to get rid of surpluses and were often able to mobilize both Congressional and administrative pressure on the ECA.

Gen Clay, however, objected strongly to having any part of the bizonal ERP allotment earmarked for mandatory procurements. On 11 April 1948 he informed Under Secretary Draper in a teleconference:

"I am greatly concerned at kind of participation permitted bizonal area under ERP. Other countries, as I understand it, are permitted to select their procurement to meet their essentials, whereas funds made available to Germany appear to be mandatorily assigned to accomplish political objectives. We have committed ourselves to maximum of \$10 million for Italian foodstuffs to be replaced with ERP funds. ...Moreover we are directed to use JETRA funds to buy high cost fats and oils, these funds to be replaced with ERP funds. Other funds assigned to Germany are to be used to finance the Low Countries' ports. It would seem, in fact, that German funds are being used to help other countries and might more appropriately be charged against those countries. It does seem as if we are establishing a pattern which is foreign to our concept of ERP as designed basically to increase German production.

"We must have the same right of selectivity as is accorded to the other sixteen countries if we are to obtain the best use of ERP. Our requirements have been held down to minimum essentials but it looks likely that our funds will be used for other purposes so that we will not have sufficient funds to meet these minimum essentials. As I understand it, it has been necessary to consent to these mandatory procurements to obtain any part of the funds for the first month. I am not too sure that we would not be better off without the money than having a pattern of this type established.

"I would appreciate it if you would give this your careful consideration for unless energetic measures are taken now I am afraid the bizonal area will become the dumping ground for others. The consequences here would be bad indeed."

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The Department of the Army replied that Gen Clay's point was well taken. It had already discussed the issue with ECA and would continue to insist that ERP funds be made available for bizonal requirements. Gen Clay was asked to send priority list of items which he really wanted.⁴² Under Secretary Draper acknowledged Gen Clay's message later in the day, indicating that he would discuss it with ECA Administrator Hoffman and adding:

"Certainly there must be a minimum allocation at least in later months which provides for your minimum requirements in addition to any amounts specifically allocated on understanding these used to make purchases from other European Countries which are not a matter of priority from your point of view."

A few days later, the issue of "mandatory procurement" arose again in connection with Dutch vegetables. The Netherlands had formerly shipped large quantities of truck garden produce into Germany, but since the War these imports had been discontinued in favor of basic foods such as wheat, potatoes and fats. Dutch officials in Washington approached the ECA and obtained the assurance that ERP funds would be forthcoming "to prevent wastage of their vegetables." Thereupon, Netherlands representatives in Germany approached the Joint Export-Import Agency, proposing immediate arrangements for the shipment of the vegetables to Germany.

OMGUS informed the Department of the Army that it had no objections if the Dutch ERP allocation were used to pay for the vegetables, but that the limited ERP allocation to Germany could not be used for the purpose. Shipment

42. Telecon, Berlin TT 9342 of 11 Apr 48, OMGUS Telecon File, KCRC. SECRET

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of vegetables would not be authorized until the matter of payment had been decided.⁴³

After considerable further negotiation, a policy suggested by Under Secretary of the Army Draper was accepted by the Economic Cooperation Administration. This was that for "political procurements" not programmed by OMGUS but "considered desirable for overall European recovery", the bizonal ERP account would be charged only the fair value to Germany, as compared to what might otherwise have been bought with the dollars in question. For vegetables and similar high-priced foods, Germany would thus be charged only a moderate amount more than the wheat equivalent.⁴⁴

Even before the Dutch vegetables issue had been settled, the Department of Agriculture proposed the export to Germany of \$12,000,000 worth of tobacco, subject to a one-third discount to be covered by price-support funds. OMGUS considered that the bizonal budget would not support such a large luxury import, but it agreed to send to Washington a team of JEIA officials to purchase half the quantity suggested by the Department of Agriculture. On 25 June 1948, however, Assistant Secretary of the Army Gray notified OMGUS

43. Telecon, Berlin TT 9388 of 22 Apr 48, OMGUS Telecon File, KCRG. SECRET

44. Telecon, Berlin TT 9515, 19 May 48, OMGUS Telecon File, KCRG; cable, OUSA to OMGUS, WARK 82286 of 20 May 48, CAD Numerical File, RG 122, DCS. CONFIDENTIAL

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that "pressures... have arisen here on purchase of additional U.S. tobacco." Since the Department of Agriculture was writing off one-third of the price, and ECA funds would cover the remainder, he wanted to be sure that OMUS had given the purchase thorough consideration.

Although the tobacco question had not been completely thrashed out, the price-support funds of the Department of Agriculture were scheduled to expire on 30 June 1948 except as already covered by firm contracts. Although Gen Clay had only indicated that the additional tobacco might be purchased, the bizonal ERP mission in Washington yielded to the combined influence of the Department of Agriculture, the ECA and the Department of the Army. The tobacco contract was signed on 30 June with an agreement from the tobacco firms that they would, if it became absolutely necessary, agree to cancel the contract on a voluntary basis. In accordance with the advice of the ERP mission that cancellation might cause severe domestic repercussions, this escape agreement was not invoked.⁴⁵

The Counterpart Funds Issue

The Department of the Army, with the advice of the bizonal ERP group in Washington, negotiated with the Economic Cooperation Administration the terms

45. Cables ERPGP to CINCEUR, WARK 85790 of 15 Jul 48, ERPGE to Frankfurt Military Post to JEIA for LOGAN, WAR 86022 of 19 Jul 48; CAD Numerical File, RG 122, DRB. SECRET

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for economic assistance to Germany. There arose a dispute that for a time threatened to block signature of the bilateral agreement between Bipartite Board and the ECA. Without the agreement, ERP assistance to Germany, which had been initiated under provisional "letters of intent," would have been cut off automatically on 3 July 1948.

Section 111(C) (1) of the Economic Cooperation Act of 1948 authorized the ECA Administrator, after consultation with the National Advisory Council on International Monetary and Financial Problems, to provide assistance for any participating country:

- (1) "through grants or payment in cash
- (2) "on credit terms"
- (3) "on such other terms of payment as he may find appropriate," including the transfer to the United States of critical materials.

Section 115(D) (6) provided for the deposit of currency of the recipient country in a counterpart account, as agreed to between such country and the United States, when commodities or services were "furnished to the participating country on a grant basis." These counterpart funds were to be used for a variety of purposes beneficial to the recipient country and also for U.S. administrative expenditures in local currency. ⁴⁶

46. Economic Cooperation Act of 1948, Title I of Public Law 472, 80th Congress, 2nd Session, approved April 3, 1948, reprinted in Decade, pp 1299-1321.

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Accordingly, commodities and services furnished under grants from the Economic Cooperation Administration were subject to payment of counterpart funds in local currency. In the case of ECA loans, counterpart accounts were not established since the loans were to be repaid in dollars. For bizonal Germany, however, the National Advisory Council recommended and Administrator Hoffman determined that assistance would be granted as a loan but that counterpart deposits would be required nevertheless. When this provision appeared in the "letter of intent" regulating the assistance program provisionally to the end of June 1948, it drew a prompt challenge from Gen Clay. Since the ECA and the State Department insisted that this provision represented United States policy and since the British did not wish to delay assistance to Germany, Gen Clay gave way and the Bipartite Board signed a letter of intent on 14 May 1948.⁴⁷

The issue of the loan and the counterpart funds came up again in connection with the formal bilateral agreement for BIA aid to Bizonia, which was negotiated with ECA by Under Secretary of the Army Draper and his staff. OMGUS would have preferred to have ECA assistance to bizonal Germany in the form of

47. Cables, WD to GINGEUR, Draper personal to Clay, WARK 60851, 30 April 48 and WARK 61478, 10 May 48; CAD Numerical File, RG 122, DRB, CONFIDENTIAL; Bipartite Board Minute 397, BIB/M(48)9, 20 May 48.

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grants, in which case there would have been no objection to making payments into a counterpart account. In the case of a loan, however, Gen Clay took exception to the counterpart requirement which, in his opinion, had no basis in the ECA Act. Draper's office replied that Gen Clay's views would be urged, but that Administrator Hoffman had insisted on counterpart accounts where definite terms of repayment have not been agreed in advance. ⁴⁸

Question of the Status of the ECA Mission in Germany

While the counterpart funds issue was still pending, another problem became acute: the status of the ECA Mission in Germany. After worsening relations with the Soviet Union had led to the decision that Military government would continue in Germany under Army auspices after 1 July 1948, Gen Clay took the position that any American officials concerned with the German phase of the recovery program should be integrated in OMGUS and responsible to the Military Governor. Administrator Hoffman, on the contrary, planned to deal with Military Government as he would with a foreign government. The bilateral agreements for other participating countries provided that the ECA would maintain its own mission in the country concerned, and Mr. Hoffman did not consider that Bizonia should be treated differently. The responsibility of ECA officials in Germany would not be to operate the program, since the Military Government and German authorities would do this, but to review bizonal

48. Teleconference, Berlin TT 9625, 17 Jun 48, OMGUS Telecon File, KERC. CONFIDENTIAL

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programs and make recommendations to Special Representative Harriman of the ECA in Paris. The matter was discussed on 8 April 1948 by Secretary Royall and Under Secretary Draper with Hoffman and Harriman. At the end of the discussion Secretary Royall agreed that Hoffman had to decide the question, but made clear the difficulties that had been experienced in the past with missions of US civilian agencies in occupied Germany. It was agreed that Harriman, who was proceeding to Germany in June 1948 with Draper, would discuss the matter with Gen Clay at that time. ⁴⁹

General Clay describes his conversation with Harriman as follows:

"Harriman proposed that the special representative be accredited to the Anglo-American Bipartite Board and have the same relationship to it as the special representatives in other countries had with their governments. I felt this to be most unwise. In view of our financial support, the bizonal fusion agreement gave us a predominant voice in foreign trade and exchange. Under these circumstances it did not seem necessary for a special representative of ECA to work directly with the British representatives in Germany. If he worked with the Americans alone, any differences could be reconciled by our government in Washington and placed in due effect in Germany through the use of our dominant voice if necessary. Harriman, in a discussion which lasted late into the night, did not change his position. The next day he graciously agreed with me and later became the special representative of ECA to the bizonal area with a deputy residing in Germany who would work with the American staff." ⁵⁰

The Signing of the ERP Agreement for Bizonia is Delayed

On 1 July 1948, while Harriman and Draper were in Berlin, the Department of the Army dispatched the final text of the proposed bilateral agreement for signature. It was accompanied by a somewhat abrupt cable indicating that the Economic Cooperation Administration would cut off assistance to all participants

49. Cable, WD to OMUS; personal from Draper to Clay, WAR 80730, 9 Apr 48, CAD numerical file, RG 122, DRB. SECRET

50. Decision, p 218

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who had not signed by 3 July. ⁵¹

Gen Clay, however, refused to be rushed. He instructed his Economics staff to protest, which they did in a lengthy teleconference. The agreement contained both provisions to which Gen Clay had objected: the combination of a loan and counterpart funds and the assignment to Germany of a special mission administered by the ECA.

Commenting on the counterpart funds provision, OMGUS stated that the policy was unjustified under the Act of Congress and represented unfair discrimination. Although it had been announced as government policy, no explanation had been given, and the discriminatory treatment of Germany would abet communist propaganda. OMGUS objected further to a provision allocating 5 percent of the counterpart funds for "expenditures" of the United States without further qualification. It was feared that this language might force Germany to export goods without receiving foreign exchange.

The provisions concerning the mission, OMGUS stated, could/in their ^{not be signed} present form. Draper told Clay that he understood this article would be deleted and the question of the ECA Mission negotiated later. If it were to remain, it would have to state that the Mission's terms of reference would be agreed by the Military Governors and the United States Government. Finally, OMGUS concluded, it was necessary to show the agreement to the German bizonal authorities since it would be binding on the future German Government.

51. Cable, OUSE to OMGUS, WAR 85075, 1 Jul 48, CAD Numerical File, RG 122, DRB. CONFIDENTIAL

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The Department of the Army replied that it had already tried unsuccessfully to obtain amendment of the Agreement. At a high-level conference of Army, State and ECA officials the day before the Agreement had been dispatched, "We thrashed out Article IV until the sparks flew." The ECA refused to budge; its position on the loan combined with counterpart funds had been established by the National Advisory Council on International Monetary and Financial Problems, with which ECA had been bound to consult. Hoffman did not intend to change the determination unless the Council should reverse its policy, which was highly unlikely.

The reasoning of NAC and ECA as explained to OMGUS was as follows:

(a) An outright grant to Germany was out of the question since the United States was giving ECA assistance to several Allies on a loan basis only, and since it was desired to include ECA imports under the general policy that approved imports be the first charge against German exports;

(b) At the same time, Germany's inability to repay in the foreseeable future made it necessary to grant a loan for an indefinite period and with no specific terms of repayment;

(c) Since the loan to Germany was so much like a grant, ECA considered the counterpart funds necessary to protect the United States. ⁵²

On the question of the Mission, the Department of the Army continued, it was correct that Draper had been told that the Department of State favored omitting the question from the Agreement. That Department had, however, changed its mind. At the meeting with State and ECA, it had been agreed that the

52. Summarized from telecon Berlin TT 9722 between D/A and OMGUS Economics Division, 3 Jul 48, OMGUS Telecon File, KCRC; and cable WAR 81478 as cited in Note 47. CONFIDENTIAL

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language left open the nature of the mission. It was imperative, the Department concluded, either that the agreement be signed or that negotiations with the highest available State and ECA officials be arranged.

At this point, Gen Clay came on the teleconference and said:

"General Clay speaking. I am not prepared to sign today and I know Robertson is not. I do not believe he will accept present wording and I think it would be most unfortunate for this agreement to be signed because of our majority voice. I am sorry we are late but we are given only three days which just about represents an ultimatum.... I think I have reached agreement with Harriman. However, I must make it clear that I cannot-repeat-not at present. I think this is a major document and I think we are entitled to full time for consideration...." 53

The following day Gen Clay cabled that Harriman had made a proposal which he had found acceptable. This was that the ECA administrator would designate the Military Governor as his representative in Germany, and that any policy questions affecting both ECA and OMGUS responsibilities would be discussed between the Military Governor and the ECA Special Representative in Europe. The latter would appoint an official to represent him in the Office of the US Chairman of the Bipartite Control Office. There would be full exchange of information in both directions between BICO and this official. At the same time, the bizonal delegate to the OEEC would keep in close touch with the office of the ECA Special Representative and would attend the staff meetings held by that official. Gen Clay also agreed in this cable to accept the loan rather than a grant, as well as the five percent provision which he trusted would

53. Telecon, Berlin TT 9722 as cited in Note 52. CONFIDENTIAL

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be administered with special regard to the German situation.

Secretary of the Army Royall then conferred with Administrator Hoffman, who suggested a compromise under which Harriman would become the ECA representative in Germany. After a further exchange of cables in which Gen Clay suggested and Washington accepted the idea that the bilateral agreement should not designate specific individuals, Gen Clay indicated that he and Gen Robertson were ready to sign. ⁵⁴

Although the bilateral ERP agreement signed 14 July 1948 still contained the language to which Gen Clay had objected, it represented a typical case in which Clay lost in theory but won in practice. As he observes, Harriman finally agreed that the ECA representative in Germany would work with the American staff only. ⁵⁵

As a practical matter, Norman H. Collisson, the ECA Deputy Special Representative for Germany, functioned more or less as though he were a member of OMGUS. ERP assistance to Germany was in fact equivalent to a grant, possible repayment being relegated to the same status as repayment of advances under GARIOA appropriations. The counterpart funds were never spent for purposes of which Military Government disapproved. Later, when Military Government

54. Cables, CINCEUR to GSUSA, Clay personal to Voorhees, CC-5038, 4 Jul; D/A to CINCEUR, Voorhees personal to Clay, WARK 85433, 9 Jul; CINCEUR to D/A, from Clay personal to Voorhees, CC-5117, 10 Jul; WARK 85615 D/A to CINCEUR, from Voorhees personal to Clay, 12 Jul; CINCEUR to GSUSA, Clay for Voorhees, CC-5149, 13 Jul 48; OMGUS AG Decinal File 092 Marshall Plan. SECRET (downgraded from Top Secret)

55. Decision, p 218.

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was replaced by the high commission, ECA representation in Germany was placed under the control of the American High Commissioner. ⁵⁶

The GARIOA Appropriation is Extended to Include "Recovery"

Under Secretary of the Army Draper feared that the GARIOA appropriation for 1949, on which the Bureau of the Budget had been induced to restore a \$175 million cut, might be jeopardized by Congressional opinion that the Germans were not doing enough to collect domestic food stuffs. He repeated previous warnings on this score to Gen Clay, who replied that he had ordered a house-to-house census for hoarded foods with spot checks of certified reports. "If this does not find the food it means that it is not there. I think it fair to point out that Germans have always protested our production estimates which were much larger than theirs." ⁵⁷ Shortly thereafter Clay himself went to Washington to defend the appropriations for Germany before the Appropriations Committees of the House and Senate.

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56. Story in Documents contains the following documentation on ERP assistance to the bizonas: letters of intent signed by US political adviser, Robert D. Murphy on 1 May 48 and by Generals Clay and Robertson on 14 May 48; agreement between the United States of America and the US-UK occupied areas in Germany, dated 14 Jul 48, with annex containing "interpretative notes"; pp 522-31 inclusive.
57. Teleconference between War Department (Draper and Voorhees) and OMGUS (General Clay, Wilkinson and others), 10 Jan 48, OMGUS Telecon File, KCRG. SECRET. Decision, p 239.

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There remained, however, numerous technical details to be ironed out between Washington and the theater before the 1949 CARIOA appropriations was finally passed by Congress in June 1948. Tracy S. Voorhees, who in the meantime had been appointed Assistant Secretary of War, obtained an amendment to the appropriation language so that CARIOA funds could be used not only for preventing "disease and unrest" but also for the "recovery" of Germany. ⁵⁸

OMGUS is Caught in a Financial Squeeze

The fact that some of the funds for US support of Germany were appropriated to the Department of the Army, whereas the remainder was to be allocated through ECA channels, resulted in a difficult situation for OMGUS. The European agency charged with recommending the division of the \$6 million appropriated on 2 April 1948 by the Economic Cooperation Act of 1948 was the Organization for European Economic Cooperation (OEEC), the successor to the temporary CEEC. The OEEC was established in Paris in the Spring of 1948, with British delegates representing Bizonia since it was considered desirable for OEEC to be formed by the representatives of European nations without American participation. Administrator Hoffman of the ECA had

58. Teleconference, TT 9650, 22 Jun 49, OMGUS Telecon File, KCRC. CONFIDENTIAL

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determined that OEEC should divide the initial appropriation among the participating nations. Although the Department of the Army had requested appropriations on the assumption that Germany would receive \$500,000,000 from ERP funds, the OEEC recommended only \$364,000,000 for Germany, less than the allocations for the Netherlands or Belgium.

Gen Clay protested on 11 April 1948. But since he had neglected to establish a close working relationship with Hoffman, the reception of OMGUS claims by ECA was less sympathetic than it might have been. There ensued a lengthy series of discussions with Hoffman and his Special Representative for Europe, W. Averill Harriman. On 30 August 1948, Gen Clay refused flatly to accept the offered ERP allocations. In subsequent negotiations ending on 10 September, agreement was finally reached on an allocation of \$414,000,000. ⁵⁹

REVISION OF REPARATIONS LISTS UNDER THE EUROPEAN RECOVERY ACT

The State and Army Departments Defend the Dismantling Program

The Departments of State and of the Army entered the hearings on the European Recovery program with the intention of supporting the August 1947 level of industry and the October 1947 reparations list without further change. In the hearing of 8 January 1948 Secretary Marshall stated that German recovery and integration into the ERP could be accomplished within the existing level-of-industry agreement. Gen Clay, he said, would supply further information.

59. Cable, Under Secretary of the Army to CINCEUR, WAR 99390, 11 Apr 48, citing telecon of same date, CAD Numerical File, RG 122, DNB. RESTRICTED. Decision, pp 215-18.

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When this was presented, in the form of a letter from Under Secretary of State Lovett to the Speaker of the House in response to House Resolution 365, it was substantially as submitted by Gen Clay in early December 1947. Clay's position was that while individual plants on the reparation list could be exchanged for other plants, which had been done in some cases on German suggestion, the level as a whole represented the maximum industrial capacity which Germany could use without undue preference over other countries in the allocation of raw materials and transport.⁶⁰

Although Secretary of the Army Royall indicated on 14 January 1948 that "to attain full economic recovery Germany needs more outside help than any country in Western Europe," and that the Army was departing from the limited "disease and unrest" formula in order to relieve the American taxpayers, he adhered to the previous policy on dismantling. Senator Vandenberg was ready to accept the State-Army policy on dismantling, as evidenced by the following dialogue.

"THE CHAIRMAN [Senator Vandenberg]: ...It is my understanding of your testimony, and I am asking you to check those conclusions, that it would be both inadvisable and futile in respect to any useful results to suspend all dismantling of plants in Germany for the following reasons:

First, that the plants which remain to be dismantled are not essential to the maintenance of the German economy at the level contemplated for the next five years in Germany.

Second, that none of the dismantled plants except the tag-end remnants of three plants will be sent to Russia, and that all dismantling which is confined to those three plants, all dismantling intended for Russia, will have stopped the first of April.

60. Hearings on the European Recovery Program before the Committee on Foreign Relations, US Senate, 8 Jan to 5 Feb 48 inclusive, testimony of Hon Geo. C. Marshall, Sec of State, 8 Jan 48, pp 11-12 and 36-37; ltr, Under Sec State Lovett to Speaker of House of Representatives in response to HR 365, 80th Congress, 18 Dec 47, reprinted in Story in Documents, pp 413-20.

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Third, that such dismantling with this tag-end exception which continues to occur will therefore be for the benefit of the reparations claims which are recognized in behalf of the other allies, particularly the western European allies and their colleagues. Therefore, that the total suspension of dismantling would contribute neither to the German economy nor to the agreed program of reparations in respect to allies other than Russia. Is that a correct statement?

"SECRETARY ROYALL: I think that is a very complete and excellent summary, and a very correct summary. ...

"THE CHAIRMAN: Am I not correct in saying that such an order to halt dismantling/ would be inadvisable because not essential to the German economy and because additional surplus dismantling is necessary to meet legitimate restoration requirements of our Western Allies?

"SECRETARY ROYALL: That is entirely correct, and that is under the IARA Agreement..."

Secretary Royall went on to state that a continued control of German industry would be necessary "until we are more convinced than I am today that the war spirit is completely dead in Germany." In answer to a further question from Senator Vandenberg, Secretary Royall confirmed that it was still US policy to keep Germany permanently demilitarized, with the qualification that it was no longer thought necessary "to denude Germany of all essential industry, in order to prevent remilitarization."⁶¹

The same reasoning was incorporated in a memorandum which Secretary Marshall sent to Senator Vandenberg on 4 February 1948, with a covering letter stating that since a temporary halt of dismantling followed by resumption would produce "unfortunate political consequences" in Germany, Gen Clay had not been instructed to discontinue dismantling. The memorandum, in addition to justifying at

61. Hearings as cited in preceding note, testimony of Honorable Kenneth C. Royall, Sec Army, Wed 14 Jan 48, and Thurs 15 Jan 48.

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length the feasibility and necessity of the reparations program, pointed out that the Inter-Allied Reparations Agency had protested to the Council of Foreign Ministers in November 1947 against delays in the dismantling and shipment of plants and had requested the Council to seek measures to speed up the program.⁶²

Cabinet and Diplomatic Consideration of Reparations

In spite of the initial statements by the Secretaries of State and of the Army, it was apparent from the outset that US reparations policy would be thoroughly examined and reconsidered, both in Congress and on high executive levels. On 9 January 1948 the Department of the Army advised OIGUS that Senator Vandenberg had obtained withdrawal of the appropriation rider blocking the pay of dismantling personnel by promising to review the entire reparations question. Adoption of definitive US policies on future reparations deliveries awaited progress of the hearings, further discussions with the British and consideration in the US Cabinet. In the same cable instructions were given regarding deliveries to the Soviet Union as follows:

"Meantime you should continue practice of making no deliveries to the Soviet Union except for any tag ends of deliveries which were never suspended and are now being completed pursuant advance deliveries and war plants equip programs. There should be no public statement or statement to Soviets on this practice pending adoption definitive U.S. policy. Reasons for secrecy are delicate negotiations with British and desire if possible to avoid any Soviet reprisals pending definitive policy."

The Secretary of State, OIGUS was advised, planned to recommend to the Cabinet that:

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62. Status of German Reparation and Dismantling Program, ltr, Sec State Marshall to Sen. Arthur H. Vandenberg, 4 Feb 48, with memo on German reparations program dtd 2 Feb 48, Story in Documents, pp 374-61.

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"A. Reparations program as a whole be strongly defended and that dismantling for and deliveries to IARA countries be suspended pending Congressional enquiry only if adm is persuaded after full conference with Congressional leaders that indispensable to congressional support for ERP.

"B. Deliveries to Soviet Union be suspended indefinitely except perhaps tag ends referred to ... above.

"C. Deliveries to all IARA countries be continued.

"D. Agreement be sought with British and French to suspend deliveries to USSR from Western Zones but no economic pressure be exerted if to do so is against their judgment."

The British, the cable indicated, regarded themselves committed to further deliveries to the Soviets, stopping of which would give the Soviet Union an excuse to increase the difficulties of Western powers, would cut off Soviet deliveries of wheat, potash, timber, etc., needed by IARA powers, would discourage East-West trade and would intensify Communist opposition to dismantling in Western Germany. The British had been told of probable Congressional dissatisfaction with their attitude in view of US support to Bizonia and British requests for ERP assistance.⁶³

At the cabinet meeting of 16 January the Secretary of State submitted his recommendations as planned. The British were advised that their proposal to put up war plants for allocation was untimely. Gen Clay was instructed to urge Gen Robertson not to present the British Zone war plants for allocation until further notice and to request deferment if the list were actually introduced in the Allied Control Authority.⁶⁴

63. Cable, CSCAD PL to CINCEUR, WARK 93723 of 9 Jan 48, CAD Numerical File, RG 122, DRB. SECRET

64. Cable, CSCAD Econ to CINCUS, WARK 94187, 16 Jan 48, CAD Numerical File, RG 122, DRB. SECRET

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Congressional Action on Dismantling is Indicated

In the meantime, the Department of the Army was receiving detailed questions from the Foreign Affairs, Armed Services and Appropriations Committees, plus the Case Subcommittee of the Harter Committee. Most of these questions were passed on to OMAUS where officials of the Economics Division spent much of their time gathering the necessary data. Testimony before the Senate Foreign Relations Committee was often at variance with the official views: Ambassador Douglas and Secretary of Defense Forrestal expounded at length the need for German recovery and remained pointedly silent on the subject of dismantling.⁶⁵

On 18 January 1948 former President Herbert Hoover addressed a letter to Senator Vandenberg which was inserted in the hearing record. Hoover urged that instead of limiting German steel and machinery production, the United States should encourage it by supplying working capital. Artificial scarcities, he said, would delay reconstruction and increase taxpayer cost to the United States. And on 20 January 1948 John Foster Dulles advocated production targets for Germany as well as international controls to prevent aggressive use of the German economy. His remarks on the reparations program were pointed:

"Mr. Dulles: So far it seems as if our administration of Germany had not heard about the European Recovery Plan; and it is time that the two things should be brought together.

65. Hearings on the European Recovery Program before the Committee on Foreign Relations, U.S. Senate, 8 Jan to 5 Feb 48 inclusive; 8 Jan 48, Testimony of Hon Lewis W. Douglas, Ambassador to Great Britain; 15 Jan 48 Testimony of Hon James V. Forrestal, Sec Defense.

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Senator Smith: Why should we go ahead with dismantling the plants in Germany?

Mr. Dulles: There were agreements made at Potsdam about the dismantling of plants which seemed to me to be entirely unrealistic and to defeat such a program as we are talking about here. ... And I do not think that any plants of that category ought to be dismantled. I think the Potsdam Agreement for all intents and purposes should now be treated as pretty much of a dead letter, because it just is not working."

There were certain plants, Dulles said, which actually represented excess manufacturing capacity and could be more useful if moved to Allied countries. The decision whether to move plants, however, should be made on a purely economic basis without regard to the Potsdam Agreement.⁶⁶

By the end of January 1948, various Congressmen were demanding that plants in Germany capable of producing critical equipment should be placed in operation rather than being dismantled. If this required priority for material, labor and fuel, then the ERP legislation should provide such priorities. As the Department of State commented in a cable forwarded through the Civil Affairs Division: "Point is here that our previous explanation that these plants could not be operated effectively because of certain shortages does not hold up when temper of Congress is to eliminate obstacles." Particular interest was shown in the case of sheet, stripe and tube mills, the Herter Committee recommending that any dismantling in this field be suspended until it had been ascertained whether the products of these plants were needed for European recovery.⁶⁷

66. Ibid, p 711 (ltr from Mr. Hoover) and 20 Jan 48, testimony of Mr. John Foster Dulles.

67. Cables: CSCAD Econ to OICUS, WAXX 94497 of 22 Jan and WAXX 94905 of 29 Jan 48, CAD Numerical File, RG 122, DRJ. RESTRICTED

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Toward the end of the Senate Foreign Relations Committee's hearings, a report was presented by Lewis H. Brown, President of the Johns-Manville Company, who had studied economic conditions in Germany at the request of Gen Clay. After discussing the causes for economic paralysis in Germany, Brown recommended the removal of all restrictions on industry except for those of strictly military character. The currency should be reformed and the economic regimentation apparatus demobilized, he said. Western Germany should be made "a European bridgehead for the advance of the private enterprise system." Business confidence required abandonment of the philosophy embodied in the Yalta and Potsdam Agreements and in JCS 1067.⁶⁸

The Senate Foreign Relations Committee considered that the administration had made its case on the reparations program. Its report submitted to the Senate on 26 February 1948 stated:

"The Committee is satisfied that the policies of this government with respect to dismantling of German plants are consistent with the European Recovery Program and that they do not jeopardize the vital role that Western Germany is required to play under this program..."

"The Committee finds that to discontinue dismantling would violate our international commitments under the Paris Reparations Agreements."⁶⁹

The Case Subcommittee, however, disagreed strongly. Its report of 28 February 1948, the major recommendations of which were made known to the executive agencies in late January,⁷⁰ made the following proposals on reparations:

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- 68. Hearings on the European Recovery Program before the Committee on Foreign Relations, U.S. Senate, 31 Jan 48, Basic Statement on Germany by Lewis H. Brown, Pres, the Johns-Manville Co., N. Y. C.
 - 69. Senate Report 935, 80th Congress, 2nd Session, 26 Feb 48, entitled "European Recovery Program."
 - 70. Cable, CSCAD Econ to OMGUS, WARI 94905 of 29 Jan 48, CAD Numerical File, RG 122, BRB. RESTRICTED

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"That a special incentive schedule be authorized for the production of coal by permitting Germany to retain for industrial and heating purposes all the coal mined beyond the minimum essential exports of coking coal to liberated neighbors.

"That the production of fertilizer in Germany must be increased by all possible means as an indispensable step in increasing the production of food.

"That the dismantling of plants in Western Germany be suspended in order that the list of those scheduled for dismantling may be restudied by a Congressional committee to determine where they can best be used for the economic recovery of Europe, or alternatively, that a procedure for review of the list be established, with application to all of Western Germany if possible in such a manner as to permit full weight to considerations of European recovery, and full knowledge of the facts by the Congress.

"That the management of German industry be turned over to its owners under such restrictions as are fully consistent with occupation policies but otherwise allowing full freedom to make such use of raw materials or use of foreign exchange credits as is consistent with agreed-upon claims. ...

"That the schedule of levels for the different industries of Germany under the Revised Level of Industry Agreement of August 29, 1947, be reviewed in detail by the Occupation Administration in light of any program for European economic recovery, and a report with recommendations for changes be made to Congress at an early date, and annually thereafter."

The notes accompanying these recommendations made it clear that the Subcommittee had considered the testimony of State and Army officials in the Senate ERP Hearings but was unconvinced by the arguments presented.⁷¹

The status of the dismantling controversy, as appraised by Col Cheseldine

71. 80th Congress, 2nd Session, House Report No. 1845, Final Report on Foreign Aid of the House Select Committee on Foreign Aid, Report on Germany, pp 113-31; the recommendations quoted are economic recommendations Nos. 3, 4, 5, 9, and 10 from a series of 10.

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of the Civil Affairs Division in a teleconference with OMIGUS on 13 February 1948 was as follows:

"Temper of Congress is conditioned by demands of Marshall Plan. So serious is entire reparations problem, particularly dismantling, that matter is subject of Cabinet meeting today to attempt get firm U.S. position to present Congress. This will mean government contact here with French and British to try to secure something solid on whatever our position may be. If the Congress not satisfied, we can expect quick legislation or prolonged debate. Meanwhile your dismantling will continue. No one knows, therefore, whether U.S. will be praised or censured.... Be assured too, that all questions we send you this subject are being asked British and French by State at governmental level. No problem more acute in Washington than this..."⁷²

Establishment of the Cabinet Technical Commission

The issue was not resolved on 13 February but at a Cabinet meeting of 16 February the following recommendations made by the Secretary of State were approved:

1. That the Secretaries of Commerce, Interior and Agriculture nominate representatives to examine with representatives of the State and Army Departments, and in cooperation with members of the technical staffs of the interested Congressional committees, the lists of plants scheduled for dismantling in the three western zones (800, of which 186 are in the U.S. Zone). The purpose of this examination would be to recommend which plants, if any, on these lists should be retained because they could if left in Germany make a substantial contribution to the world supply of critical items.
2. Subject to the possible recommendations referred to above, the Cabinet should approve the dismantling program as based upon the revised level of industry of August 1947.
3. Dismantling of plants in the U.S. Zone will be continued, and deliveries of plants will be made from the U.S. Zone to the IARA nations, in accordance with our obligations under the Paris Agreement on Reparations of 24 January 1946, after recommendations are received under paragraph 1 above.
4. The Secretary of State's representative should, at the forthcoming Tripartite Conference in London, seek the adherence of the British and French Governments to the following course of action:
 - A. Indefinite suspension of further deliveries to the Soviet Union and Poland; with the possible exception of deliveries... compensated... by reciprocal deliveries of commodities from the Soviets.
 - B. A prompt re-examination of the lists of plants scheduled for dismantling in their zones.

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5. If satisfactory agreements with the British and French, as indicated in sub-paragraph (A) and (B) of recommendation 4, are not achieved, the Cabinet should consider further the position which the U.S. Government should take.

In reporting these Cabinet decisions to OMCUS, the Civil Affairs Division noted that the Cabinet Technical Commission thus established would concern itself with the following critical industries:

1. Steel sheet and strips,
2. Steel tubes and large diameter pipes,
3. Petroleum equipment
4. Heavy electrical equipment, including transformers and generators,
5. Agricultural machinery,
6. Coal mining equipment
7. Transportation equipment,
8. Certain types of chemicals, including fertilizer.

The Civil Affairs Division felt that it could assure the Cabinet Technical Commission that the critical industries in question were not affected by reparations from the United States Zone. Its investigations, therefore, would probably be concerned only with the British and French zones.⁷³

The Cabinet Technical Commission, headed by Norman H. Collisson (later ECA representative in Germany) and also known as the "Collisson Commission" was only the first of several investigative bodies that came to Germany during 1948 to look into the reparations problem. The Joint Committee on Foreign Economic Cooperation, the so-called "Watchdog Committee" established by Section 124 of the ECA Act of 1948, joined with the Department of the Army and the Economic Cooperation Administration in establishing the Wolf Committee, headed by George W. Wolf of the United States Steel

73. Cable, CSCAD PL to CINCEUR, WAR 96176 of 18 Feb 48, CAD Numerical File, RG-122, DRB. SECRET

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agency, which was charged with re-appraising the dismantling of the steel plants on the reparations list. A subsidiary committee of the Self Committee, headed by Joseph Keenan, investigated the effect of dismantlings on the production of coal mining machinery. Finally, ECA had its own committee, appointed by Administrator Hoffman at a later stage.

Lack of Information Hampers Consideration of the Dismantling Program

While these investigations were being launched, dismantling in the US Zone was proceeding at a rapid rate. Gen Clay had stated on 31 December 1947 that "we are dismantling all plants now as rapidly as we can reach them," and "please understand that in US Zone we continue to dismantle until we receive orders to the contrary."⁷⁴ This information was passed on to Congress, which had every opportunity to halt US Zone dismantlings if a majority had favored such a course. Since Congress did not call a halt, OMGUS continued to dismantle. Of the 105 war plants in the US ZONE, 89 were completely dismantled by 31 March 1948. By 30 June 1948 98 of these plants were completely dismantled as well as all of the 69 plants that had been declared surplus in October 1947.⁷⁵ The critical industrial plants were, of course, mostly in the British Zone, and those were largely concentrated in the Ruhr industrial area. A few important plants, particularly in the chemical industry, were located

74. Teleconference, D/A (Gen Draper) and OMGUS (Gen Clay), 31 Dec 47, 31 Dec 47, OMGUS Telecon File, KCRC. SECRET

75. Reparations and Restitution (unpublished), Department of the Secretary Governor No. 36, APR-Jun 48, OMBL, Jan 48, p. 3.

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in the French Zone.

Since 1945, British policy relative to reduction of German industrial capacity had moved in the direction opposite from the trend of opinion in the United States. Originally the British had favored a greater steel capacity than the United States, but by 1947 the situation had been reversed. The Reparations Division of British Military Government contained a number of officials on leave from important positions in the British iron and steel industries, who had at least a potential interest in eliminating plants that could compete with British exports. The British were, however, fully informed about the proceedings in Congress. In view of their stake in the European Recovery Program, they had every interest in avoiding steps that could provoke unfavorable reactions. Dismantling in the British Zone proceeded, therefore, at only a moderate speed and with special measures to avoid publicity. Certain critical plants scheduled for dismantling were still intact at the end of 1948.

A major difficulty that confronted all those concerned with the reparations and dismantling question was the lack of coordinated and evaluated information. There had been no comprehensive analysis to ascertain exactly how the machinery to be removed fitted into the German and the European economy. Such an analysis would have required a cooperative project of the three western occupying powers, because reparations removals affected Western Germany as a whole. Yet all that OMGUS could offer in support of the 1947 level of industry was the unproved assertion that the Germans would be unable to employ the capacity designated as "surplus" on the revised reparations list.

In March 1948 the Cabinet Technical Commission undertook an intensive

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analysis of productive capacity in Germany in relation to European requirements. OMGUS was requested to supply detailed information concerning present and past production of the plants scheduled for dismantling and the industries which they represented. To this request, OMGUS was forced to reply that there was no comparable information on production capacities in the three zones. Production information was limited to that established in the OMGUS reporting system plus a few other critical items. Shortage of staff made it impossible to provide the data demanded by the Commission. Except for personnel engaged in restitution and dismantling, the OMGUS economics staff was being reduced to two individuals in each Land. No help could be had from the German officials, since they were embroiled in reorganization and were unfamiliar with reparations problems. Although OMGUS had assembled information on the productive capacity of peacetime plants in the US Zone, no such information was available for the other zones and it was doubted that the British or French would go to the trouble of collecting the data. Conversely, the Department of the Army was unable to tell OMGUS whether the Commission would require changes in the list of US Zone plants scheduled for dismantling.⁷⁶

There were from time to time disputes concerning individual plants. A typical case involved the Geisler plant at Munich which produced precision tools and gauges. This plant was scheduled for dismantling in spite of strong objections from Army Ordnance officials and German sources including the railroads. Both during and after the dismantling of this plant, it was alleged

76. Teleconferences, CAD and OMGUS Economics Division, TT 9186 of 8 March and TT 9191 of 9 Mar 48, OMGUS Telecon File, KCEC. SECRET

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that OMGUS personnel had conspired to withhold essential information.⁷⁷

It is remarkable that there were only a few disputes of this type that became issues in the United States. Normal economic conditions had ceased to exist in Germany well before the war, and during the first half of 1948 Western Germany still had a managed economy with a worthless currency; there was, therefore, no objective test of surplus capacity such as would have been afforded by supply and demand in a free market.

Report of the Cabinet Technical Commission

By the end of June 1948 the Cabinet Technical Commission had completed its report, which recommended the retention of 316 entire plants and 15 parts of plants.⁷⁸ The Cabinet Committee met on 3 July and decided that the technical report would be kept secret and not submitted to the President until after review by representatives of the State, Army, Interior, Commerce and Agriculture Departments and the Economic Cooperation Administration. Acting Secretary of State Lovett and Secretary of the Army Royall maintained that the Commission had recommended the retention of too many plants. A cablegram was also read from Gen Clay indicating that he likewise could not agree to the retention of as many plants as were listed in the Commission's report and that he would later indicate the plants which OMGUS considered it desirable to retain in Germany.

77. Cables, CSCAD to OMGUS, WARK 96367 of 22 Feb 48; OMGUS to WD, CC 3319 of 29 Feb 48; CSCAD to OMGUS, WARK 99211 of 8 Apr 48; CSCAD to OMGUS WARK 86814 of 2 Aug 48; CAD numerical File, RG 122, DRB. CONFIDENTIAL

78. Teleconference, DA/State and OMGUS Operations Division, TT 9860 of 28 Jul 48, CAD Numerical File, RG 122, DRB. SECRET; cf. Clay, Decision, p 322

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It was agreed to compromise by retaining a small number of plants producing genuinely critical products.⁷⁹

A copy of the report of the Cabinet Technical Commission was sent to OMGUS, where the Economics Division reviewed the need for the products of the plants recommended for retention and the possibility of providing them with sufficient labor through currency reform and raw materials through ERP. OMGUS then cabled a list of two groups of plants designated as first and second priority, "the retention of which could fairly reasonably be justified, based on their anticipated contribution to the European Recovery Program." Although this OMGUS list was smaller than that recommended by the Cabinet Technical Commission, it included some plants that the Commission had not listed.⁸⁰

After a Working Party of the Cabinet Committee had considered both the report of the Commission and the OMGUS list, the Committee itself decided to refer to the Economic Cooperation Administration for further consideration a total of about 170 plants and to release all others for allocation as reparations. It was anticipated by the Department of the Army that Administrator Hoffman would accept the proposals of the Cabinet Committee. The Departments of State and Army planned to review the list of 170 plants with the ECA with the objective of increasing the number of plants released for reparations if possible. At the same time, the State Department would request the British and French Governments to suspend the dismantling of plants recommended for

79. Cable, OMGUS to WD, FMPC 274 of 1 Jul 48, WD to OMGUS for Under Secretary Draper (in Berlin), WMR 85188 of 3 Jul 48, CAD Numerical File, RG 122, DRB: Telecon, WD and OMGUS Economics Division, TT 9751 of 9 Jul 48, OMGUS Telecon File, KCRC. Secret

80. Telecon, DA/State and OMGUS Reparations, TT 9860, 28 Jul 48, CAD Numerical File, RG 122, DRB. SECRET

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retention.⁸¹

The Humphrey Committee and Its Report

Before any action could be taken on the report of the Cabinet Committee, members of the House Foreign Affairs Committee summoned representatives of the Departments of State and Army and ECA to discuss the status of reparations in executive session. The Congressmen pointed out that under the ECA Act, the final responsibility for preparing lists of plants devolved upon the ECA which, in fact, was expected to consider plants already allocated.⁸²

Hoffman agreed that the review of the reparations program for which he was responsible as Administrator of the Economic Cooperation Administration would have to include more than the approximately 170 plants recommended by the Cabinet Committee for further study. In August 1948, therefore, he appointed the Industrial Advisory Committee, consisting of American industrial executives under the chairmanship of George M. Humphrey of Cleveland.

The Humphrey Committee was charged with reviewing the question of removal or retention of a total of 381 plants. Of these, 323 had been recommended for retention by the Cabinet Technical Commission, while the others had been listed by OMGUS, in the Keenan Report on the mine equipment industry, and by Congressmen and Congressional committees. A stop order was sent out on the

81. Cables, CSCAD Econ to OMGUS, WARK 87243, 7 Aug 48, CAD Numerical File, RG 122, DRB. SECRET

82. Section 115 (f) of the Economic Cooperation Act of 1948 (Public Law 472, 80th Congress, 2nd Session, approved 3 April 1948) reads; "The Administrator will request the Secretary of State to obtain the agreement of those countries concerned that such capital equipment as is scheduled for removal as reparations from the three Western Zones of Germany be retained in Germany if such retention will most effectively serve the purposes of the European Recovery Program."

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plants listed by the Cabinet Technical Commission, so that they would not be allocated or dismantled beyond the existing status. In the case of plants in the British and French Zones, the embargo was of course in the form of a request through diplomatic channels to the British and French Governments. Great Britain and France were recipients of ERP assistance; the request had the desired effect. A similar request was made on some but not all of the other plants referred to the Humphrey Committee.⁸³

The Governments of France, the United Kingdom and the United States issued a joint statement on 27 October 1948 to the effect that:

"...It has been agreed by the three Governments that there is a need to examine certain portions of the reparations lists with a view to determining to what extent some plants on those lists might better serve the needs of European recovery if left in Germany than if removed and reerected elsewhere. Pursuant to Section 115 (f) of the United States Foreign Assistance Act, a preliminary review of the lists has already been made by the United States Government and a list of plants which require more detailed study has been drawn up. The further review of these plants will be conducted by the Industrial Advisory Committee of the Economic Cooperation Administration, maintaining close touch with officials of the other two Governments concerned, who will cooperate in every way. It is hoped to complete this review within a few weeks."⁸⁴

For the remainder of 1948, dismantling and allocation of plants under study by the Humphrey Committee were deferred until the Committee could make its report.⁸⁵

83. Cables, CAD to OMCUS, WAR 88786, 5 Sep 48, CONFIDENTIAL; WARK 88914, 8 Sep 48, SECRET; and WARK 90182, 1 Oct 48, SECRET; CAD Numerical File RG 122, DRB; see also Occupation pp 48, 67-70, Decision, p 322, and Three Years of Reparations, OMCUS, Nov 48, p 4.

84. Reparations Programs in Western Zones: Three-power Statement, 27 Oct 48, Story in Documents 424-425.

85. On one occasion, OMCUS was requested to make a discreet investigation of clandestine dismantling in the British Zone reported by the Wolf Steel Commission. Cable, CSCAD to OMCUS, WARK 88643 of 2 Sep 48, CAD Numerical File, RG 122, DRB. SECRET

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The Humphrey Commission proceeded to Germany in October, and both Administrator Hoffman and Special Representative Harriman of ECA participated in its initial conversations with OMGUS officials. Col Cheseldine and Lt Col Smith of the Civil Affairs Division, who had participated in the negotiations on reparations matters in Washington, accompanied the mission as liaison officers.⁸⁶

The Humphrey Committee employed several American engineering firms to review the plants in various branches of industry. George Wolf, President of the United States Steel Export Corporation, and a group of his associates who had made the earlier report on the German Steel Industry, were engaged to investigate the steel plants under consideration. Their study included a complete review of the German steel industry. The Humphrey Committee maintained close contact not only with OMGUS, but also with interested agencies in Washington.⁸⁷

The Humphrey Committee completed its report on 12 January 1949. Of the 381 plants considered, the committee recommended the retention of 167 plants or parts of plants in the following categories: steel 37, chemicals 35, non-ferrous metals 7, and general mechanical engineering 88. The 214 other plants, the Committee indicated, could be released for reparations.⁸⁷

86. Cables, D/A to CINCEUR, personal from Draper to Clay, WAR 90739 of 12 Oct and WAR 91098 of 19 Oct 48, CAD Numerical File, RG 122, DRB. CONFIDENTIAL

87. Cable, D/A to OMGUS, WAR 92731 of 17 Nov 48, CAD Numerical File, RG 122, DRB. SECRET

87. Report of Industrial Advisory Committee to Administrator Hoffman, 12 Jan 49, reprinted in Occupation 67-73. This report also gives the terms of reference of the Humphrey Committee, which were to "recommend to the Administrator which part, if any, of said equipment will most effectively serve the purposes of the European Recovery Program if retained in Germany.... In arriving at its conclusions the Committee may consider any factors which it deems relevant."

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THE PROHIBITED AND RESTRICTED INDUSTRIES (PRI) ISSUE

A question closely related to reparations removals was that of placing permanent prohibitions and restrictions on various German industries. This subject was discussed at the London Conference of February-June 1948 that laid the basis for West German government. The Department of State had summarized US policy in a position paper indicating that while France wanted permanent limitations on the German steel, machine tools, tar distillation, dyes and explosives industries, the United States had always held that the level of industry plan merely set a basis for reparations removals. Permanent limitations on industrial output would weaken rather than strengthen the fabric of security. The State Department considered that in the long run the British and American public would not support sanctions to enforce economic limitations. The Department wished to remove the prohibitions of the 1946 level-of-industry plan against German aluminum and magnesium production. It also thought that the French dismantling list would cause serious local unemployment and impoverishment, particularly in watchmaking areas.⁸⁸

The London Conference did not itself reach any definite conclusions on the question of prohibited and restricted industries. It did, however, require the United States, British and French Military Governors to establish a working party for the purpose of reaching an agreed policy, which began its negotiations during the latter part of September 1948.

88. Coordination of Economic Policies and Practices between the French Zone and the Bizonal Area, 10 Feb 1948, State Dept policy paper furnished to Dept of Army for meeting on 17 Feb 1948 WDSGA decimal file 014 Germany, EG 122, DRB. SECRET

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Gen Clay submitted in advance an item-by-item statement of the position which COMUS proposed to take. This was accepted by the Departments of State and Army with one exception: The production of beryllium, a strategic atomic material, would have to be prohibited. The instructions to Gen Clay emphasized that the limitations placed upon German industry would be temporary, subject to confirmation by a peace treaty. It was suggested that the working party avoid the question of plant dismantlings which was already being discussed elsewhere.

The US position submitted by Gen Clay was, however, accepted only as an initial negotiating position and not necessarily as a final position. Since the British and French would be more immediately affected than the United States by possible German rearmament, Gen Clay was advised to use care in presenting the initial US view. The final position, the cable indicated, "should generally be in line with agreed Franco-British position with respect to particular prohibited or restricted industries." It was recognized, however, that the British and French might to some extent be motivated by business rather than security considerations.⁸⁹

Preliminary negotiations of the working party showed that there was tripartite agreement to continue prohibiting the manufacture of implements of war, aircraft, radioactive materials and (with technical differences in definition) high-concentration hydrogen peroxide and high-wattage electronic valves. There was also agreement that steel production should be 10.7 million tons per year for the bizonal area. On a number of other products, the British and French desired prohibition or strict limitation, while the United States was willing to

89. Cables, COMUS to D/A, CG 5595 (WD CM-IN 3892, Aug 1948), CSCAD to CINCENR, WAR 98817 of 7 Sept 1948, CAD numerical file, RG 122, DRB, SECRET (downgraded from TS).

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accept very broad limitations or to remove them altogether. In general, the French position was far more restrictive than the British. The United States was alone in wishing to permit conditionally the manufacture of synthetic rubber and synthetic oil, to remove the limitation on ball and roller bearings and to permit manufacture of any machine tools not specifically designed for military manufacture. On items such as synthetic ammonia, vanadium, chlorine, tar distillation and dyestuffs, the United States and Britain but not France were agreed in removing limitations.⁹⁰

Although General Clay had, in the preceding months, defended the October 1947 reparations list and objected to the scope of retentions proposed by the Cabinet Technical Commission, he had never held that the reparations program imposed permanent limitations on German production. Furthermore, the events of 1948 had shown clearly the position of Western Germany in the emerging war of ideologies, and the currency reform had revealed hitherto unsuspected German capabilities. By September 1948, Clay feared that the Working Party on Prohibited and Restricted Industries might nullify the ECA effort to save key German plants from dismantling. To accept a restrictive British-French agreed view on prohibited and restricted industries, as the Departments of State and the Army had suggested, would be "flying in face of strong Congressional desire to rebuild Germany."⁹¹

90. Cables, CINCEUR sgd Clay to D/A for Draper, CC 6030 of 21 Sept 1948, CC 6038 of 22 Sept and CC 6067 of 25 Sept 1948, CMGUS AG decimal file 004.03, KCRC. SECRET (downgraded from TS).

91. Telecon, D/A Washington (Sec of Defense Forrestal, Sec of Army Royall, Undersecretary of Army Draper, C/S Gen Bradley, et al) and CMGUS Berlin (Gen Clay), TT 1182 of 8 Sept 1948, CAD telecon file, RG 122, DAB. SECRET (downgraded from TS).

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Undersecretary Draper acknowledged the difficulty and suggested that Gen Clay not depart seriously from his initial position without checking with Washington. After British, French and United States views had been compared, Gen Clay amplified his earlier comment, pointing out that many limitations proposed by the British and French were based on the capacity remaining in Germany after reparations removals. It was therefore hard to take a position until the reparations question had been settled. He then added:

"Finally, I should point out to you that the very weak instructions under which we are negotiating will inevitably force us to accept prohibitions and limitation which will have a most serious and lasting effect upon German potentialities for establishing a viable economy. In my opinion, they may have far greater lasting significance than the plant removals which our Government is now resisting. I am afraid that those same members of Congress who have forced the reparations issue will quickly see the inconsistency of a strong reparations stand and a weak attitude on limited and prohibited industries, and this may well result in a later upset of any decisions now taken. I submit that this would be worse in its effect on our Allies than for us to fight now for a reasonable middle-ground compromise. I am not questioning my instructions but I feel you should look carefully at this eventuality.

"We should completely prohibit Germany's production of war equipment under a rigid inspection system to insure compliance. However, any permanent restriction of other industries thus reducing the world productive capacity is inconsistent with American policy to increase productive capacity."92

Gen Clay was then authorized, on an interim basis, to maintain his original position and to fight for a "reasonable middle-ground compromise." Washington then asked Gen Clay to indicate his idea of such a compromise, which he proceeded to do. As the negotiations continued in the theater, there was almost daily communication between OMGUS and Washington, guidance provided by the latter being limited to spot decisions on particular items.93

92. Cable, CINCEUR to D/A from Clay for Draper, CC 6070 of 25 Sept 1948, OMGUS AG decimal file 004.03, KCRC, SECRET (downgraded from TS).

93. D/A to CINCEUR, WAR 91673 of 29 Oct and WAR 81460 of 19 Dec 1948, OMGUS AG decimal file 004.03, KCRC, SECRET (downgraded from TS)

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By the end of November 1948 US-UK-French agreement had been reached except on radio tubes, synthetic rubber and oil, chlorine, dyestuffs, tar distillation, semi-fabricated nonferrous metals and shipbuilding. On these, however, the negotiations bogged down. On 19 December 1948 Draper notified Gen Clay that the Department of State and ECA had agreed, subject to concurrence of the Secretary of the Army, to adopt a US position including the following principles:

A. The position of the United States on plant removals would not be reserved except for steel plants still under consideration by the Humphrey Committee.

B. Security against Germany can best be maintained by total prohibition of a small number of industries rather than complicated restrictions which are difficult to enforce.

C. The United States is prepared to prohibit production and remove capacity for the production of military items, aircraft, radio-active materials, hydrogen peroxide above 37 per cent concentration, magnesium and beryllium, synthetic rubber and synthetic oil including removal of all seven Fischer-Tropsch plants.

D. The United States is prepared, if necessary to reach agreement, to accept limitations on shipbuilding and production of anti-friction bearings, ammonia, chlorine, coal distillates, calcium carbide, copper, zinc, fabricated nonferrous metals and large radio transmitting tubes.

E. If impossible to obtain removal of the limitation on aluminum production, the United States would agree to a limit of 75,000 tons and removal of excess capacity.

F. If the British list of prohibited machine tools could not be reduced, the United States would agree to a procedure for licensing of production of items so listed by the Military Security Board.⁹⁴

The following day, the Department of the Army added that since the ECA would participate in formulating the US position on prohibited and restricted industries, it would have no interest in the selection of plants representing surplus to be removed.⁹⁵

94. Summarized from cable, D/A to CINCPAC, SACUS personal to Clay, WAR 81460 of 18 Dec 1948, CINCPAC AG declass file 004.03, KCRG. SECRET (downgraded from TS).

95. Cable, CSCAD Ecan to CINCPAC, WAR 81059 of 19 Dec 1948, CAD Numerical file, RG 122, DMS. SECRET

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At this point, Gen Clay indicated his desire to wash his hands of the entire matter. In a cable of 20 December 1948 he said:

"...My own views on prohibited and restricted industries are too well known to Department for further comment to be necessary. Unfortunately before the established present policy, I had thought them the views of our Government. Security against Germany lies in the intent to enforce security and not in artificial restrictions of industry essential to normal commerce.

"I have urged that the question of prohibited and restricted industries be resolved at governmental levels and not here in Germany. Our present position is not only embarrassing to my past negotiations but it is one in which a lack of success might lead to accusations of lukewarmness. Therefore, I repeat and urge my previous recommendation that this question be removed from hands of the Military Governors and negotiated at governmental level."⁹⁶

The Department of the Army, however, agreed with the Department of State that it would be better for Gen Clay to continue the negotiations in the theater since a change of venue might "further increase the tendency of the French and British for end-run actions on other matters." The negotiations continued therefore in a desultory fashion, with what Gen Clay described as "almost entirely give and very little take, from our standpoint." Finally, during the first week of March 1949, the entire subject was transferred to the diplomatic representatives of the three powers in London, who were also reviewing the reparations question in preparation for the Three-Power Conference in Washington in April 1949.⁹⁷

96. Cable, CINCENR to D/A, Clay to SACUS, CC 7127 of 20 Dec 1948, OMCUS AG decimal file 004.03, KCRC. SECRET (downgraded from TS).

97. Cables: D/A to CINCENR, Draper Personal to Clay, WAR 81775 of 25 Dec 1948, SECRET (downgraded from TS); D/A to CINCENR, WAR 85038 of 4 March 1949, SECRET; CINCENR to D/A, CC7961 of 8 March 1949, SECRET; OMCUS AG decimal file 004.03, KCRC.

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SETTLEMENT OF THE DISMANTLING AND PRI ISSUES

Action on the Humphrey Report

After the Humphrey Committee had turned in its report, Administrator Hoffman requested the Department of State to obtain British and French agreement for the retention of the 167 plants listed by the committee, indicating that ECA had no further interest in plants not so listed. The State Department sent the Humphrey report on 26 January to the British and French Ambassadors with a recommendation that it be accepted. Although the Department had considered deferring action on the plants not recommended for retention by the Humphrey Committee until British and French reaction to the report could be learned, it decided later to release these plants without waiting for British and French agreement on plants to be retained. Gen Clay was accordingly instructed to proceed with dismantling and allocation of the plants not recommended for retention by the Humphrey Committee, with 25 per cent of these plants still earmarked for possible future allocation to the Soviets. In the meantime, the report of the Humphrey Committee was kept secret, although portions of it "leaked" and there were demands in Congress for its release.⁹⁸

The negotiations on the Humphrey report were conducted in London. In general, Ambassador Douglas attempted, as instructed, to obtain British and French agreement to retention of the entire Humphrey list. In February, however, Washington took the initiative in releasing one of the plants, the Bochumer Verein Steel Works.⁹⁹

98. Cables, D/A to CINCEUR, WAR 82672 of 12 Jan and WARK 83275 of 26 Jan 1949, CAD numerical file, RG 122, DRB, SECRET: Congressional Record, 8 Feb 1949, Speech by Senator Langer.

99. Cable, CSCAD Econ to CEXUS, WARK 83975 of 9 Feb 1949, CAD numerical file, RG 122, DRB. SECRET

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The Department of State attempted to keep the questions of the reparations list and of prohibited and restricted industries separate. It did not wish to discuss PRI until after settlement of the Humphrey recommendations. The British and French, however, insisted on discussing reparations and PRI in combination. Ambassador Douglas finally was forced to recommend that the United States give in, and the Department of State agreed that he might discuss PRI with Foreign Ministers Bevin and Schuman if this would facilitate progress on reparations.

The Shipbuilding Controversy

Meanwhile the Department of the Navy, which had been supporting Gen Clay's proposal to remove restrictions on civilian shipbuilding, suddenly reversed its position. If a hostile power should seize Western Germany, the Navy argued, it would use the German yards to build submarines and other naval vessels to attack the United States. The Department of State concurred and prepared instructions for Ambassador Douglas that the United States would agree to removal of seven large shipyards which might not be replaced. This information was cabled to Gen Clay together with the news that reparations and prohibited and restricted industries would be discussed together.¹⁰⁰

Gen Clay promptly cabled back his opinion that "In making these types of decisions we are playing into Communist hands." If shipyards could be used against the United States, so could all other industries; the British motive was fear of economic competition rather than of military attack.

100. Cables, CSCAD Econ to CINCEUR, WAR 85337; MD to CINCEUR, Voorhees to Clay, WAR 85469 of 11 March 1949; CAD numerical file, RG 122, DRS.
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Limitations on production which seriously affect the ability of 65 million people to live, Gen Clay stated, afford no security but sow seeds of hatred and distress which lead to war. It would be a bad bargain to buy off a few ECA plants at the cost of permanent shackles on the German economy. It was Clay's hope that Ambassador Douglas would concentrate on obtaining minimum restrictions rather than maximum plant retentions.

Gen Clay added some words on the relation of GINXUS to the policy process:

"I would like to add further that with these same instructions, we might have reached agreement here. So again and for the fourth or fifth time...we are placed in a position to have been more unyielding than our Government which of course means that our negotiating position here is once again undermined. It seems that the instructions are always only an interim Government position. It has of consequence made the position of the American Military Governor here almost an impossible one for it is more and more apparent to his colleagues that he does not have Government support.

"...I have no one to send to London from here. In point of fact, we could contribute nothing since our views have already been made known and our representative would serve no useful purpose. Normally when they do go to these conferences they are not permitted to attend the actual meetings, I presume from fear of contamination." 101

Assistant Secretary of the Army Voorhees answered Gen Clay on 14 March 1949 with a message from Ambassador Murphy (who was back in the State Department) indicating that the General was "unduly disturbed over a technical position..." Ambassador Douglas had been given the same instructions on prohibited and restricted industries as Gen Clay; he believed that progress could be made in this field as well as reparations without yielding the firm United States position. On the matter of shipbuilding, the United States position would be reconsidered. The same day, at an interdepartmental con-

101. Cable, GINCEUR to D/A, Clay personal to Voorhees, CC 7996 of 12 March 1949, GINXUS AG decimal file 004.03, KCRC. SECRET (downgraded from TS).

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ference, a compromise policy on shipbuilding was adopted which made it possible for Germany to acquire and operate ocean-going vessels and which left intact the residual installations of dismantled shipyards.¹⁰²

The Agreements of April 1949 and Later Modifications

By the beginning of April 1949, agreement had been reached in London both on the revised reparations list and on prohibited and restricted industries. These agreements were announced from Washington on 13 April 1949 during the Tripartite Conference of Foreign Ministers. In the field of reparations, the three powers had agreed to retain in Germany 159 of the 167 plants recommended for retention by the Industrial Advisory Committee (Humphrey Committee). The agreement on prohibited and restricted industries represented a compromise between the views of the occupying powers. Production of synthetic rubber and (except for a temporary period) of synthetic oil products was prohibited, and limitations were placed on aluminum, ball bearings, ammonia, chlorine and styrene. There was, however, a small increase in the permitted production of steel, and the restrictions of machine tool manufacture and shipbuilding were less strict than the British and French had desired. It was also agreed that if no peace settlement with Germany should have been concluded by 30 June 1952, the limitations would be reviewed at that time.¹⁰³

102. Cables D/A to CINCEUR, Voorhees to Clay, WAR 85524 of 14 March 1949; D/A to CINCEUR, WAR 85628 of 16 March 1949; CAD numerical file, RG 122, DRB. SECRET

103. US/UK/French Agreement on Revised German Reparation Program, Press Statement of 13 April 1949; US/UK/French Agreement on Prohibited and Limited Industries of 13 April 1949; Story in Documents, 425-426 and 366-371 respectively.

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The announcements of 13 April 1949 settled most of the reparations and level-of-industry problem but not quite all. The eight plants which had been marked for dismantling despite the recommendations of the Humphrey Committee were of major importance. Five of these plants were among the largest steel foundries of the Ruhr, and the three others produced chemicals important for a number of industries. According to German estimates, the steel plants to be dismantled represented two-thirds of the capacity recommended for retention by the Humphrey Committee and 85 per cent of the plant value on the original dismantling list.¹⁰⁴

The manner in which the British conducted the dismantlings of the plants in their zone also suggested that they were more interested in destroying productive capacity than in preserving the machines for re-installation elsewhere. A new wave of pressure for further modification of the dismantling program attracted considerable support in Congress. After the Senate Appropriation Act calling for a new review of dismantlings, the Department of the Army cabled OMGUS to suspend dismantling in the US Zone pending further developments.¹⁰⁵

During the remaining days of Military Government there was no further formal modification of policies on dismantling and the level of industry in Germany. In the fall, however, after the West German Government had been installed and OMGUS had given way to HICOG (Office of the U.S. High Commissioner in Germany), Congressional pressure combined with the appeals of the

104. Joan S. Crane, Dismantlings in the Ruhr, Report to Representative St. George, July 1949 (mimeographed) pp. 7-8.

105. Ibid., pp. 19, 34; Cable, from D/A to OMGUS, Voorhees to Hayes, WAR 91557 of 16 July 1949, Frankfurt Military Post Cable and Telecon file, KCRC.

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new German Chancellor Adenauer resulted in a re-opening of the question. An agreement of 24 November 1949, reached with the Chancellor of the German Federal Republic by the three High Commissioners upon the instruction of the respective Foreign Ministers, permitted the retention of eight major steel plants and eleven synthetic oil and rubber plants, insofar as they had not already been dismantled. The agreement also relaxed considerably the restrictions on shipbuilding and provided that Germany would join the council of the OEEC and the International Authority for the Ruhr.

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106. Modification of Dismantling in Germany: Agreement Between the United States, United Kingdom, France and Federal Republic of Germany, 24 November 1949, Decade 1010-1012.

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Chapter 10

FINAL PHASES OF MAJOR POLICY

THE CURRENCY REFORM

The currency reform of June 1948 was the key which unlocked the latent forces of recovery in Western Germany. Since this reform belongs historically to the final phases of military government policy, it has been left to this chapter. It is necessary, however, to drop back to 1946, at which time the US Government adopted a definite policy on German fiscal reorganization. This survey is, of course, limited chiefly to the Washington-OMGUS phase of the decision-making process.

US Policy in Quadripartite Negotiations

It will be remembered that on 21 August 1946 the Secretaries of State, War and Navy had approved the Colm-Dodge-Goldsmith Plan as US policy for negotiation in the Control Council. The philosophy of the plan was later incorporated in the financial provisions of JCS 1779 of 11 July 1947, as follows:

"19. Finance

" a. Your government views the reorganization of German finances on a sound basis and the attainment of financial stability in Germany as among the main factors essential to German economic recovery along democratic and peaceful lines. To that end, you will endeavor to have the Control Council adopt uniform financial policies in conformity with . . . this Directive.

" b. (3) you will take such action as may be necessary to prevent the establishment of a centralized German banking system and an undue concentration of financial power, but will encourage the establishment of a central authority for the production, issuance and control of currency and for technical banking supervision. You will also encourage the Germans to reestablish normal banking facilities within the limitation prescribed above and within the present blocking of assets and accounts under Military Government Law No. 52;

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(4) you will use the resources of the German economy to the maximum extent possible in order to reduce expenditures from appropriated funds of your government. . . .

"c. You will press for the adoption by the Control Council of a program for financial reform which provides for a substantial and appropriate reduction in outstanding currency and monetary claims, including public and private debt; for the equitable sharing of the costs of war and defeat; and for ancillary measures including adjustments in the wage-price structure necessary to the restoration of balance between the financial structure and the economic realities.¹

The Colm-Dodge-Goldsmith plan itself had three major features: reduction of currency and monetary claims on a 10-1 basis, equitable distribution of war losses through an equalization fund and a progressive capital levy.

During the fall of 1946, US proposals based on the Colm-Dodge-Goldsmith Plan encountered consistent opposition on all levels in the Control Council. Director Jack Bennett of the ONIUS Finance Division reported to Gen Clay in November 1946 that:

"Quadripartite-wise, the paper DFIN/memo (46) 161 (revised), looking to a reorganization of the German banking system and the establishment of the Central Bank or Central Banking Board for the whole of Germany met with such opposition in both the Coordinating Committee and the Control Council that the paper has been referred to the Allied Governments."

While there was general agreement on a 10-1 reduction of currency and claims, the three other occupying powers all opposed the US plan to issue certificates against the equalization fund for the 90% reduction. The other powers

1. Directive to Commander-in-Chief of the United States Forces of Occupation, JCS 1779, 11 July 47, reprinted in Decade 552-62; Story in Documents 33-41; and Occupation 91-99. See also Chapter 8, "Adoption of a Currency Reform Policy".

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agreed with the mortgage feature of the plan to raise revenue, but the USSR and France opposed use of the equalization fund to pay war losses such as bomb damage.²

A point at issue with the Soviet Union was whether the new currency should be printed centrally under quadripartite control or in each zone under the supervision of the respective commanders. In the Finance Directorate meeting of 11 December 1946, according to Bennett:

" It was again made clear that the US, British and French delegates were not disposed to accept decentralized printing of a new common currency. The Soviet delegate stated that he was leaving within a few days to consult with his government, and hoped to return with a satisfactory proposal on this point. He gave the impression that he personally recognized the validity of some of our arguments. He is expected to return by 1 January 1947."

The meeting agreed, however, that the old Reich debt should be cancelled. A new debt would be issued to financial institutions at the reduced rate of 10-1, and private holders of Reich securities would be given claims to war loss equalization. Tentative agreement was also reached on a formula for treatment of private debt.³

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2. Memorandum, Jack Bennett, Director, OMGUS Finance Division, to Chief of Staff, OMGUS, 6 Nov 46, with nine enclosures, including memorandum of 4 Nov 46, subject: Banking, Currency, Insurance, Financial Denazification and Statistics and Research, and memorandum of 6 Nov 46, subject: Colm-Dodge-Goldsmith Plan; OMGUS AG Decimal File 100, Finance and Accounting, Germany, KCRG. CONFIDENTIAL.
 2. Memorandum, Jack Bennet, Director of OMGUS Finance Division, to Gen Clay, 24 Dec 46; OMGUS AG Decimal File 100, Finance and Accounting, Germany, KCRG. SECRET

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The Question of Currency Printing is Referred to Washington

Upon returning from Moscow, the Soviet delegate proposed in the Finance Directorate in January 1947 that at least part of the new currency be printed at Leipzig in the Soviet Zone, with quadripartite control over all establishments printing currency. While the British and French representatives agreed, the US delegate said it would be necessary to consider at the next meeting whether genuine quadripartite control of the printing establishments could be so organized.⁴

Since the economy in Western Germany was by no means as tightly controlled as that in the Soviet Zone, the pressure was on the West rather than the Soviet Union to accept a compromise proposal for currency reform, unsatisfactory though it might be. Gen Clay cabled to Washington for advice, stating in part:

"In view of our unwillingness to accept this proposal /for Soviet Zone printing with separate plates/ Soviet representatives have now offered us a compromise to place the proposed printing in Leipzig under a quadripartite committee composed of one representative of each of the occupying powers. In theory it is difficult to argue against this proposal as printing in Leipzig would simplify and expedite the entire printing problem. However, our experience with Allied military marks makes me doubt the advisability of accepting Soviet proposal. In spite of Allied Control Council agreements we have never received any information as to the total amount of Allied military marks printed and/or issued in the Soviet Zone. Of course the quadripartite committee could not back check the printing of money in Leipzig, although unquestionably its presence in Leipzig would tend to maintain agreement in good faith.

"My understanding is that the British and French are prepared to accept the Soviet compromise. If I do so, it would be in the interests of harmony and the hope that it would work out rather than in any real confidence that would not develop difficulties later. Please consult the State Department and advise me as quickly as possible if State and War Departments have fixed views on this question. Since we must delay taking a final position until we hear from you, a prompt answer is requested."

4. Cable, USPOLAD Berlin to Sec of State, 109 of 11 Jan 47, WDSGA Decinal File 123, DRB. SECRET

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In Washington, the Civil Affairs Division requested the Assistant Secretary of State for Occupied Areas to furnish the State Department's views as a matter of urgency.

The answer to Gen Clay was decided at a high-level meeting of State, Treasury and War Department officials on 22 January 1947 and cabled two days later, as follows:

"... conclusion reached here acceptance of Soviet compromises proposal for printing in Leipzig under supervision quadripartite committee highly inadvisable. Full agreement here with your apparent view that supervision of committee of four persons could be easily made ineffective and illusory. Advantage of expediting printing would not compensate for dangers inherent in Soviet proposal. Experience with currency printing here indicates detailed safeguards necessary to prevent unauthorized printing and misuse of plates. Adequate controls could be maintained only if printing confined to one establishment, in this case Reichsdruckerei. Assume printing at Reichsdruckerei in American sector of Berlin will be under direct supervision Finance Directorate and with agreed detailed safeguards calculated to inspire confidence of occupying authorities all four powers.

"If you wish expert advice on safeguards necessary to fully controlled printing, Treasury willing to send you expert on this subject for limited period of time."

In accordance with these instructions, the US delegate stated in the Finance Directorate on 29 January that he was without instructions to discuss the printing of currency for Germany in any place other than the State Printing Office in Berlin. This office, although physically located in the United States Sector of Berlin, would be placed under strict quadripartite control. The US delegate was "anxious to consider with his colleagues the working out of any controls . . . that would be adequate in

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1. Cable, OMGUS to WD, CG 7679 of 15 Jan 47; Ltr, Brig Gen George F. Schulgen, Acting Chief, CAD, to Asst Sec of State J. H. Hilldring, 17 Jan 47; WDSCA Decimal File 123, DRB. SECRET
 2. Cable, WDSCA EC to OMGUS, WARK 90498 of 24 Jan 47, CAD Numerical File, RG 122, DRB. SECRET

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the minds of the four delegates. . ."

The Currency Question Remains Deadlocked Throughout 1947

No decision was reached in the Finance Directorate, and from then until the Moscow Conference of the Council of Foreign Ministers, the Control Council made no progress whatsoever. The Quadripartite Report to the CFM stated that "All delegations are agreed that financial reform shall be effected throughout Germany as soon as possible," but there was no agreement how the reform should be executed. The report of the Deputy Foreign Ministers to the CFM simply listed financial reform as "not agreed".²

Early in April 1947, while the CFM was still in session, the British Embassy in Washington requested that the United States change its position so as to accept the Soviet proposal to print part of the currency at Leipzig under four-power supervision. Even if all precautions were taken, the British argued, there was still need for confidence and good faith. The printing of notes for currency reform remained urgent. Furthermore, the Soviet Union could circumvent any controls by counterfeiting the new currency in Leipzig. The Germans had used the facilities there to counterfeit British bank notes successfully during the war. The main issue, the British concluded, was quadripartite control over the issuance of notes, which the Soviet Union was ready to accept. The Department of State, nevertheless indicated that it would

7. Cable, OMBUS to WD, CC 7898 of 1 Feb 47, WDSGA Decimal File 123, DRB. SECRET

2. Summary of Multipartite Agreements and Disagreements on Germany, OMBUS, rev. ed., 15 Sep 48, Vol. I, p 169. CFM/47/M/148 of 23 Apr 47, Report from the Deputies to the Council of Foreign Ministers, excerpted in Documents on Unity 35.

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inform the British that the US position had not changed and would not be reconsidered unless developments in the CFM should make reconsideration desirable.⁸¹ The meeting of the Council of Foreign Ministers, however, yielded no results in the field of financial reform.

In May 1947 the British and French representatives in the Control Council agreed to accept the Soviet proposal to print currency both in Berlin and in Leipzig under quadripartite controls. A compromise proposal by Gen Clay to remove the Berlin Printing Office from the US sector and place it directly under the Allied Control Council was rejected by the Soviet representative. The members of the Control Council agreed to seek further instructions from their governments. In doing so, Gen Clay stated:

"I have the same misgivings with respect to the acceptance of the Soviet proposal as expressed in previous reports. However, we are now placed in a position of being the only power in disagreement. Obviously we should proceed to print new currency at the earliest possible date to have it ready if and when we are able to agree on a currency reform program. There is still much doubt as to our ability to reach such an agreement so that the urgency in printing a new currency may be less real than appears on the surface. However, in spite of my misgivings, I am willing to take a chance on our ability to control printing of new currency with plates in Soviet hands, in the interests of unanimity."⁸²

The War and State Departments, however, considered the risk of sending the currency plates into the Soviet Zone too great. Washington anxiety was

81. Caglb, Sec of State signed Acheson to American Embassy, Moscow, 814 of Apr 47, WDSCA Decimal File 123, DRB. This message was not sent to OIGUS through War Department channels until 22 Apr 47, when it was repeated as MARK 96600. SECRET

82. Cable, CINCEUR to WD, CC 9110 of 10 May 47, WDSCA Decimal File 123, DRB. SECRET

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increased by the failure of attempts made in May and June 1947 to find out how many Allied military marks the Soviets had printed with the plates given them in 1944.¹ Gen Clay was not authorized to agree to the Soviet proposal, and the matter of printing new currency remained deadlocked throughout 1947.

Later in the year rumors began circulating that the Soviet Military Administration was printing new currency secretly in Leipzig. It was necessary to have a supply of currency to be placed in circulation promptly in Western Germany if the Soviets should undertake a unilateral currency reform. At the request of Gen Clay, who had consulted with Gen Robertson, new currency was printed by the US Bureau of Engraving and Printing, and secretly shipped to Germany and stored in Frankfurt before the end of 1947.²

A series of pointed questions asked by Representative Francis Case, Chairman of the Herter Subcommittee on Germany, in December 1947 indicated the growing feeling in Congress that German currency reform had been delayed too long and that bizonal reform should be undertaken in default of wider agreement.³

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1. Memorandum, Civil Affairs Division, currency printing orders, 28 May 47; Cable CIGUS to AGWAR, CC 9682 of 26 Jun 47, WDSCA Decimal File 123, DRB. SECRET
 2. Ltr. Maj Gen Daniel Moe, Chief CAD to Director Alvin W. Hall, Director of Bureau of Printing and Engraving, 13 Nov 47, WDSCA Decimal File 123, DRB; Decision 211.
 3. Ltr. Representative Francis Case to Undersecretary of the Army W. H. Draper, Jr., 1 Dec 47, AG Decimal File 091 Germany, DRB.

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The Final Attempt to Achieve Four-Power Currency Reform

Although by the end of 1947 Foreign Minister Bidault had indicated that France would now accept trizonal fusion and currency reform, Marshall and Bevin directed a final effort in the Control Council to achieve four-power currency reform. If it failed, the reform would be carried out in the bizonal area. At the London CFM in December, Marshall denied Molotov's charge that the United States had decided to issue new currency for its zone, repeating the US wish for the earliest financial reform for all zones. COMUS was instructed to answer questions on currency printing with "no comment".¹⁴

Secretary Marshall and Gen Clay worked out personally the plans for presenting the final US proposal for four-power currency reform in the Control Council. Details were communicated to the Department of the Army at its request. The proposal, introduced by Gen Clay on 20 January 1948, provided for the issuance of new currency, cancellation of the Reich debt and distribution of the currency under an Allied currency commission. No attempt was made to deal with the collateral problems of taxes and equalization of losses.

The Department of the Army expressed the fear that the Soviet Union might attempt to thwart Western currency reform by agreeing to print the currency in Berlin alone, which would require some months, then refusing to reach agreement on conditions of issue and related questions. Gen Clay

14. Cable, D/A to Cincsec, Draper personal to Clay, W-92827 of 22 Dec 47, COMUS AG Decimal File 003 Currency Reform, KCRC. SECRET (downgraded from TS.). Decision 211.

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agreed that this was a risk, but felt that it was a necessary and calculated one. In the meantime, Gen Clay added, considerable advance work had been done on a West German reform and teamwork with the British had already begun.¹⁹ The Department replied with the suggestion that West German currency reform be pushed and that details be transmitted to Washington for comment and for the information of the National Advisory Council. There was no intention, however, to transfer the discussion to the governmental level.²⁰ While the final Western proposal for an all-German currency reform was being discussed in the Allied Control Authority, that body was in its death throes. Gen Clay describes graphically the stormy meetings of the Control Council in late January and February 1948. On 20 January, the day on which Gen Clay introduced the US currency reform proposal, he and Gen Robertson also announced the final reorganization of the bizonal economic organs. This provoked a bitter attack from Marshall Sokolovsky: "Under pretense of reorganizing the bizonal economic agency, the US and British authorities . . . have commenced establishing a separatist government..." At the 11 February meeting, Gen Robertson replied to a Soviet paper charging the Western governments with deliberate failure to

19. Cables, D/A to OIGUS, WEX 93952 of 14 Jan; CINCENR to D/A for CSCAD, CC 2077 15 Jan 48; OIGUS AG Decinal File, 003 currency reform, KCRG. SECRET (downgraded from TS)

20. Cables, CINCENR signed Clay to D/A for CSCAD, CC 3095 of 5 Feb 48; D/A from CSCAD to CINCENR, WLEX 95569 of 9 Feb 48; OIGUS AG Decinal File, 003 currency reform, KCRG. SECRET (downgraded from TS)

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demilitarize by saying: "I may as well make it clear that the UK delegation is not prepared to discuss any paper which commences with a string of unjustified allegations against its government and. . . its citizens."¹

On 29 February 1948 Gen Clay outlined for Undersecretary of the Army Draper the plans being developed for Western financial reform. As recommended in the Colm-Dodge-Goldsmith Report, a new currency named Deutsche Mark would be issued at the ratio of one for each ten Reichsmarks turned in. An additional 20% of Reichsmarks would be blocked for possible additional conversion, the remaining 70% being cancelled. The conversion would be modified by head quotas of 25 Deutsche Marks per employee for firms and 250 DM per head of family with 100 DM for each dependent. There would be special war gains and reconstruction taxes to be paid in installments, but certain existing taxes would be modified because of their deflationary effects. The Reich debt would be cancelled and replaced by sufficient debt of the Laender to make financial institutions solvent. Finally, a uniform exchange rate of 30¢ per mark would be established for exports except coal and imports except food.

OMGUS further proposed to work closely with a new German committee on financial reform established by the Economic Council. This Committee had developed its own equalization scheme which was favored by the British but not by OMGUS.²

1. Decision, 349-53.

2. Cable, CINCEUR to D/A, for Draper personal from Clay, CC 3335 of 29 Feb, OMGUS AG Decimal File 003 currency reform, KCRC. SECRET (downgraded from TS)

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In the meantime, the Finance Directorate of the Allied Control Authority was discussing the problem of the Reich debt. The US delegate, following original instructions, had proposed cancellation of all Reich debt, both internal and external. Discussion had now reached the point where the Soviet, French and British delegates seemed likely to agree on cancellation of the internal debt. On 2 March 48 OMGUS asked the Department of the Army whether Washington would approve a compromise leaving the treatment of external Reich debt to be decided in the Peace Treaty.¹

The Department indicated no US objections to leaving open Reich debts expressed in foreign currency, but said that failure to cancel such debts stated in Reichsmarks, much of which was held abroad, would leave unsettled claims up to 100 billion Reichsmarks. Holders of Reich debt certificates in Germany would then try to smuggle them abroad, where they might form the basis of claims that would destroy financial progress made in Germany. It would be better to follow Colm's plan of cancelling externally held Reichsmarks, permitting foreign governments to advance claims on behalf of their nationals for settlement in the peace treaty so far as assets might be available. The Department of the Army added that this advice was sent without consultation with either the State or Treasury Departments,² and that a final reply reflecting State and Treasury

1. Cable, CINCEUR to D/A, CC 3352 of 2 Mar 48, OMGUS AG Decimal File 003 currency reform, KCRC. SECRET
2. Cable, D/A to CINCEUR, Draper personal to Clay or Bennett, WAR 97176 of 7 Mar 48, OMGUS AG Decimal File 003 currency reform, KCRC. SECRET (downgraded from TS)

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views would be sent after further information had been received from the Theater.

Before a firm position on the question of the old Reich debt could be reached in Washington, however, the Soviet Union broke up the Allied Control Authority by walking out of the 20 March 1948 meeting of the Control Council.¹

A West German Currency Reform is Carried Out

After the breakup of the Allied Control Council, OMGUS had no difficulty reaching agreement with the British on procedure for currency reform. On 2 April 1948 Gen Clay cabled that he and Gen Robertson had agreed on the following principles:

- (1) Write-down of existing money and deposits to be 10% free, 20% blocked and 70% cancelled. The Germans to prepare a plan for disposition of the 20%.
- (2) Technical terms of conversion to be in general as agreed in Control Council, but expanded according to advice of German experts.
- (3) Reich debt to be blocked pending settlement at a later date.
- (4) Domestic private debt to be reduced in same ratio as monetary claims. Foreign Reichsmark creditors to be given choice of similar reduction or holding claims in abeyance pending a peace treaty. Foreign exchange debts to remain unresolved until peace treaty.
- (5) Capital structure of financial institutions to be adjusted to reflect new conditions.
- (6) Economic Council to be required to enact legislation for capital increment and equalization taxes.
- (7) Ordinary taxation responsibility to be turned over to German authorities subject to requirement that budgets be balanced.²

1. Decision, 355-57.

2. Summarized from cable CC 3691, CINCEUR personal from Clay to D/A personal for Royall, OMGUS AG Decimal File 003 currency reform,

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Meanwhile, representatives of the three Western powers were meeting in London to determine the conditions for establishing a West German Government for the US, British and French Zones. The French representatives stated that they were ready to join the bizonal area in currency reform even before full trizonal fusion. Accordingly, France joined the currency conversations in Germany. The Financial experts of the three powers considered the recommendations made by the German Committee (which were accepted only in part) and reached general though not complete agreement on a number of technical measures. These included reduction of the blocked portion of currency and claims from 20% to 10% and issuing a per capita quota of 50 Deutsche Marks in return for 50 old Marks. A meeting of the three Commanders-in-Chief to settle unresolved questions was scheduled for 29 May.

During April and May 1948, the Department of the Army and OMGUS exchanged views on various specialized phases of currency reform, such as the currency for Berlin and the conversion of mark holdings of military agencies and personnel. On these subjects, Washington limited itself to suggestions, since the practical possibilities in the theater were dependent on negotiation with the other occupying powers. The question of French Government holdings of Reichsmarks, obtained by converting funds of POWs and forced laborers, was referred without prejudice to the respective Governments.¹

KCRC. SECRET (downgraded from TS). The original cable had 9 points, of which points 6 and 8 are omitted here as of minor importance.

1. Cable, CINCEUR to D/A, Clay personal to Draper, CC 4507 of 30 May 48, in OMGUS AG Decimal File 003 Currency Reform, KCRC. SECRET (downgraded from TS)

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The final negotiations on the currency reform were conducted entirely in the theater without specific instructions from Washington, although daily cables from OMGUS kept the Department of the Army apprized of the status of negotiations. For a day or two there was a flurry caused by a Washington suggestion that the military conversion rate for the mark be left at 10¢. OMGUS had gone to great pains to obtain French and British agreement to the 30¢ conversion rate, which involved considerable disadvantages for their occupation forces. Gen Clay cabled that the suggestion of the 10¢ rate "has hit us like a bombshell and if it is an order may necessitate complete postponement of currency reform."¹

Undersecretary Draper replied that it had been the intention of the Department of the Army to make available to OMGUS the best advice of the State, Treasury and Army Departments, "but that within the general principles and policies given you by your government, the detailed decisions based on tripartite negotiation were within your province." Although opinion in Washington was that the 10¢ military rate would not seriously affect faith in the new currency, the decision would be left to Gen Clay with the understanding that if the military rate should be made 30¢, compensating cost-of-living adjustments for personnel would follow.²

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1. Cables, WAR 82942 of 31 May 48 from WD to CINCEUR, CC 4583 from CINCEUR to D/A WARX 83287, 6 Jun 48, D/A to CINCEUR and CC 4593 of 6 Jun 48, CINCEUR to D/A, Clay personal to Draper; OMGUS AG Decimal File 003 currency reform, KCRC. SECRET (downgraded from TS)
 2. Cable, D/A to CINCEUR, Draper personal to Clay, WAR 83389 of 8 Jun 48, OMGUS AG Decimal File 003 currency reform, KCRC. SECRET (downgraded from TS)

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A further difficulty was caused by French objections to tax reductions which were felt to jeopardize occupation charges in the French Zone. What appeared to be an acceptable compromise was reached, but on 15 June, Gen Koenig, the French Commander-in-Chief, stated that if the French tax proposals were not accepted, the French Zone could not join in the currency reform.

At this point, the new currency was already being shipped from Frankfurt to the distribution centers. Gen Clay and Robertson stated that the currency changeover would proceed on schedule in the bizonal area in any event. Late in the night of June 17, however, after the French National Assembly had authorized the Government to participate in the London agreement for trizonal fusion, Gen Koenig agreed to the compromise tax proposals. The currency conversion took place in all three zones as scheduled on 20 June 1948.¹

The currency reform in Western Germany led to a sequence of dramatic developments, including the extension by the Soviet Union of the existing partial blockade of Berlin so as to cut off all land and water transportation, the Soviet attempt to expand their zonal currency reform into the Western Sectors of Berlin, the failure to reach quadripartite agreement on a uniform currency for the city, the establishment of the airlift and the breakup of the Berlin City Government. As the scope of the present study did not permit going into questions involving specifically the City

1. Decision 212-13; resolution by the French National Assembly, 17 Jun 48, reprinted in Occupation 267-68.

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of Berlin, these subjects are not discussed here. Needless to say, the political implications of the entire Berlin affair, including what for a time appeared to be a genuine possibility of armed conflict with the Soviet Union, led Washington to take an active interest in the Berlin negotiations, which were soon supplemented by the abortive intergovernmental talks in Moscow.

Yet even during the siege of Berlin, Gen Clay was given wide latitude for decision. As Secretary of the Army Royall told him on 1 September 1948:

"Fully realizing the very difficult job which lies before you, it is not my intention nor that of the State Department to restrict or hamper you in your negotiations. However, we will be glad to give you our opinions on any matters about which you wish to consult us, and to assume or share the responsibility of any important decisions which you have to make."

While the Department of the Army wished to be kept currently informed of the details of negotiations, this was for information and not for the purpose of regulating day-to-day discussions. Washington would, of course, wish to be advised before any overall agreement on a determinative question or before a definite breakdown in Berlin.¹

THE CONCLUSION OF DENAZIFICATION

After the amnesties of 1946, denazification had proceeded to the accompaniment of increasing criticism. Business interests both in

1. Cable, D/A to CINCEUR, from Royall personal for Clay, WAR 88531 of 1 Sep 48, OMGUS AG Decimal File 003 currency reform, KCHC. SECRET (downgraded from TS)

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Germany and in America complained that the program was retarding German recovery, and the denazification officials themselves came up with numerous plans for simplifying and expediting procedure. At the same time, some sectors of the press and public in both countries complained of the "renazification" of Germany.¹ Meanwhile, under instructions from the Joint Chiefs of Staff, those mandatory arrestees not wanted in connection with Allied Trials were turned over to the German Authorities or, if the latter failed to issue warrants of arrest, were released.²

In October 1947 the Law for Liberation was amended so as to permit more rapid processing of routine cases, with the intention of permitting the tribunals to concentrate on the major Nazis. Party membership was no longer in itself a ground for classification higher than Class III and the principle of presumptive guilt was eliminated. Except for members of formations declared criminal by the International Military Tribunal (the Gestapo, SS, etc.) trials were to be held only where the evidence justified. As a result of these amendments, the monthly output of the tribunals tripled, and by the end of 1947 figures 2,523,323 out of 3,251,488 cases had been completed. In January 1948 Military Government abolished the requirement that classification of persons charged as "offenders" or "followers" be submitted for its approval.³

1. Denazification 123-26.

2. Cable, JCS to COMGENUSFET, WAR 93544 of 7 Mar 47, CAD Numerical File, RG 122, DRB. RESTRICTED

3. Denazification (Cumulative Review), Report of the Military Governor No. 34, COMUS Apr 48 p 11; Kormann, Denazification 127-28, 130.

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These developments, however, did not satisfy a growing demand in Congress that the denazification proceedings be concluded as quickly as possible. The report of the Case Subcommittee recommended:

"That denazification proceedings on all but "major offenders" be ended by May 8, 1948 (the third anniversary of VE-day) through proclaiming full amnesty for all "lesser offenders" and "followers" whose clearance proceedings have not been completed by that date, and that full faith and credit be accorded the holders of this and prior amnesty or clearance cards by all agencies of the United States Government, thereby granting full freedom of movement and the right to work, to enroll in educational institutions and to participate in government."

The Subcommittee noted in its critique that "American denazification policy went too far and tried to include too many." Its categories were too broad and too rigid, and it left the German people in a state of uncertainty. "It may even have driven some people who were originally favorably inclined to the ideas of democracy back into the arms of some species of totalitarianism."¹

The Department of the Army raised with Gen Clay the question of carrying out the recommendation of the Case Report. At first Gen Clay demurred, pointing out that the approximately 400,000 cases remaining were being settled at 100,000 a month and that on 1 May 1948 the remaining lesser internees who had served two years in internment camps would be released. A general amnesty at this point would benefit the "really bad actors" who had not been tried and would discredit the

1. Report on Germany, in Final Report on Foreign Aid of the House Select Committee on Foreign Aid, House Report No. 1845, 80th Congress, Second Session, pp 127-29.

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entire program.¹ A few days later, in answer to a further inquiry in a teleconference, Gen Clay stated: "I cannot stop denazification except by ordering the Germans to stop. If this is an order, please advise me."²

While the Department of the Army was not yet ready to order Gen Clay to halt denazification, opinion in Congress became increasingly outspoken. The House Appropriations Committee served notice that it would not approve an Army deficiency bill unless denazification were stopped.³ At this point, Gen Clay weakened and approved a compromise arrangement which eliminated all but 32,000 of the remaining cases. The Law for Liberation was amended so as to give public prosecutors full discretion in filing charges except in Class I cases; pre-trial restrictions were removed from all untried persons except those charged in Class I, allowing them to re-enter all positions in private industry and business except key positions. On 27 March 1948 OMGUS issued a directive establishing a target date of 1 May 1948 for the completion of all first trials, and making available the German personnel, the space and the equipment of Special Branch Offices to help the German tribunals to deal with the work load. This directive caused the Herter Committee to comment: "The Committee notes with satisfaction the announcement of the United States

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1. Cable, CINCEUR to D/A, Clay personal to Draper, CC 3499 of 14 Mar 48, CAD Numerical File, RG 122, DRB. CONFIDENTIAL
 2. Decision 260.
 3. William E. Griffith, "Denazification in the United States Zone of Germany," Annals.

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Military Governor on March 27, 1948, substantially in accord with this recommendation."¹

On 1 May 1948 only 32,000 heavily incriminated Nazis remained to be tried. During the summer of 1948 these cases were adjudicated and in September the Special Branch Offices of Military Government closed down. While the influx of refugees, expellees and prisoners of war kept the German tribunals active on a decreasing scale until April 1950, denazification was no longer a subject of important policy decision.

FIRST STEPS TOWARD WEST GERMAN GOVERNMENT

Failure of the Final Attempt to Achieve German Unity

Although the Moscow CFM of March-April 1947 had shown the Soviet Union to be interested in German unity only on terms permitting the Communists to seize control, it had been agreed to make one more attempt to reach four-power agreement at the fifth session of the Council of Foreign Ministers, which opened in London on 15 November 1947. The Deputy Foreign Ministers convened on 6 November to attempt a measure of advance agreement, OMGUS being represented indirectly by Political Adviser Robert Murphy. The deputies produced a voluminous report. They had finally agreed on central German administrative agencies. The French had a reservation concerning their jurisdiction in the Ruhr/Rhineland. The Soviet Union wished the zone commanders to control the activities of the central agencies in their respective zones, whereas the three other

1. Denazification (Cumulative Review), Apr 48, pp 10-11, 160-62; Final Report on Foreign Aid, p 127.

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powers did not. The Soviets proposed that a provisional central government, if established, have a maximum of governmental powers including police authority, while the French desired to keep the functions of the central government to an absolute minimum. The United States and British were in between, agreeing with the Soviet view on some points and with the French on others.¹

Both the Department of State and OMCUS developed position papers on various subjects for use at the London CFM. In October 1947, there was an exchange of drafts. The State Department agreed to incorporate OMCUS suggestions in its own papers, and OMCUS was asked to prepare over-all papers on:

- (1) guarantees of democracy in Germany,
- (2) establishment of provisional German government,
- (3) revival of the German economy,
- (4) insuring permanent demilitarization and
- (5) settlement of German boundaries.

Each of these papers was to contain a statement for the Secretary of State to make in the CFM and a proposal for him to introduce.²

At the London CFM, which lasted from 25 November to December 15, 1947, the U.S. Delegation included Gen Clay and a sizeable OMCUS contingent. The latter included the CFM Secretariat, a unit of the OMCUS Civil Administration Division, which had become responsible for political as

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1. CFM/D/L/47/G. 80, "Report From the Deputies to the Council of Foreign Ministers on the Form and Scope of Provisional Political Organization of Germany," 13 Nov 1947, Reprinted in Documents on Unity, 79-84.
 2. Cable, CSCAD, to OMCUS, from Litchfield for Dayton, CM-OUT 88870 of 21 Oct 1947, CAD Numerical File, RG 122, DRB. SECRET

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well as governmental affairs. This arrangement provided a channel through which OMGUS views could contribute to the determination of US Government policy. As Gen Clay recounts, Secretary Marshall made it a point to iron out differences in a daily staff meeting of the entire US delegation.¹ Clay himself took an active role in these discussions and pressed for statement of the American position on governmental problems.²

The United States Delegation at London took the position that no serious discussion of German governmental structure was possible until the four powers had agreed on certain fundamental principles. Secretary Marshall later summarized these principles as follows:

"1. The elimination of the artificial zonal barriers to permit free movement of persons, ideas and goods throughout the whole territory of Germany.

"2. The relinquishment by the occupying powers of ownership of properties in Germany seized under the guise of reparations without Four Power Agreement.

"3. A currency reform involving the introduction of new and sound currency for all Germany.

"4. A definite determination of the economic burdens which Germany would be called upon to bear in the future, that is, the costs of occupation, repayment of sums advanced by the occupying powers, and reparations.

"5. An over-all export-import plan for all of Germany."³

1. Decision, 344-345.

2. Edward H. Litchfield, "Emergence of German Governments" Chapter 2 in Governing, p 58.

3. Report by Sec Marshall on London Session of Council of Foreign Ministers, Story in Documents, 65.

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The Soviet Union had not the slightest intention of agreeing to these principles, which would have meant the abandonment of its policy of economic and political exploitation. It insisted on large scale reparations from current German production and refused to pool German economic resources.¹

Meanwhile, the Soviet-controlled Socialist Unity Party (SED) had organized the "German People's Congress," a united front assembly consisting largely of delegates from the SED and its affiliated "mass organizations," with a few Communists and other leftists from Western Germany. The "People's Congress" elected a 17-man committee to go to London, supposedly as representatives of the German people, to plead for "German unity and a just peace". The British refused to issue travel papers and the U.S. Delegation rejected flatly a Soviet proposal to grant it an audience.²

This patent attempt to exert pressure on the Western Allies through mass propaganda not only unveiled the entire Soviet strategy but also stimulated unprecedented solidarity between the United States, Britain and even France. Shortly after Molotov had presented unsuccessfully the "People's Congress" proposal, Marshall adjourned the meeting sine die with the obvious concurrence of his colleagues.

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1. Decision, 347.
 2. German Governmental Organisation and Civil Administration (Cumulative Review), OMBUS Report No. 30, Dec 1947, p 10, See also Kurt Glaser, "Governments of Soviet Germany". Chapter 6 in Governing, pp 164-165.

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Although the London CFM produced no direct results, it served to clarify American and British ideas on the structure of German central government. It also established the primacy of OMGUS in the development of U.S. policy on German government. Finally - and most important - it was at this conference that Foreign Minister Bidault of France agreed to early three-power discussions with a view to formation of a West German Government.¹

The First Session of the London Six-Power Conference

On 20 January 1948 announcement was made of a Conference to meet in London on 23 February to discuss German affairs of interest to the French, British and United States Governments. Representatives of Belgium, the Netherlands and Luxembourg were invited to take part, on an equal footing, in discussion of all items on the agenda except those dealing with direct occupation administration.²

During the preparations for the conference relations with the French were slightly ruffled by the final bizonal reorganization of 9 February 1948, against which the French Government - with an obvious eye to its internal political situation - felt obliged to protest. The Department of State was, however, able to quiet the French by taking the occasion to recognize the de facto separation of the Saar from Germany and its incorporation in the French economy. It had been the United States intention to accord such recognition in any case, but Gen Clay was advised

1. Litchfield, Governing, 38; Decision, 394.

2. Decision, 394; London Six Power Conference, Communique of 8 March 1948, Story in Documents, 75-76.

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to present the Saar agreement to French Military Government as a quid pro quo.¹

Since the French were unwilling to discuss a formation of a West German government without settling other problems, the agenda of the London Six-Power Conference included the following subjects:

- A. Association of Benelux Countries in policy regarding Western Germany.
- B. Reparations Deliveries.
- C. Relationship of Western Germany to ERP.
- D. Control of the Ruhr.
- E. Security against Germany.
- F. Evolution of the political and economic organization of the three Western Zones.
- G. Provisional territorial arrangements and internal administrative boundaries.²

The cablegram listing the conference agenda also informed Gen Clay that:

"State is particularly desirous that you attend these Conferences, in entirety if possible, or in event of extended discussions, for as much time as you can spare. We recognize limitations on your time but would hope you could be present during talks with British and as much of French discussions as possible. Mr. Bevin, according to State, has personally expressed a desire that you attend."

The United States Delegation was headed by Ambassador Douglas, with whom Gen Clay's relations had always been particularly cordial. As in the case of the London CFM, Gen Clay brought his principal governmental and economic advisers.

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1. Cable, CSCAD FL to CINCEUR personal for Clay, WARK 94204 of 17 Jan 1948, CAD Numerical File, RG 122, DRB. SECRET
 2. Cable, WD to CINCEUR, Draper personal to Clay, WAR 94985 of 29 Jan 1948, CAD Numerical File, RG 122, DRB. SECRET

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The Department of State prepared a series of policy papers for the London Conference. These made clear the general U.S. objective of integrating an economically rehabilitated Western Germany under a democratic government into Western Europe, but left considerable flexibility regarding ways and means. While the United States, for instance, preferred German allocation of Ruhr products under international supervision, other alternatives were not excluded. Political evolution of the three Western Zones might proceed from the present bizonal organization, to which the French, speaking privately in Berlin, really did not object, and which was both federal and democratic. The French were to be urged to permit freedom of movement between Bizonia and the French Zone. Trizonal economic fusion could be an intermediate step toward political union and would not necessarily represent a definitive split of Germany.

The paper on economic coordination pointed out that since a French veto in trizonal control organizations would result in paralysis, majority vote should prevail. It would be impractical to insist on a French financial contribution to the support of Western Germany. Even if full economic unity could not be attained, a currency reform for the trizonal area would still be possible. The paper then dealt seriatim with a number of specialized economic problems and indicated that Ambassador Douglas should decide after consultation with OMGUS which of these questions should be raised at the London Conference.

The most important of the State Department's policy papers was that entitled: "U.S. Policy Regarding the Formation of a Definitive Governmental Regime in Germany," which listed the following principles to be applied in the development of German governmental structure.

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1. Only the most general restrictions should be imposed upon the German framers of a government, and these should be limited to requirements clearly indispensable to present and long-term security. The broad forms and details procedures of a future regime should be left for determination according to democratic processes by the Germans themselves.

2. Any German government should be federal in character, resting upon the maximum autonomy of the Laender consistent with the requirements of legal, economic and administrative unity. Powers of the government should be specifically enumerated and delegated by the states, and all residual powers reserved to the latter.

3. The government, however, should be more than a coordinating instrument of quasi-sovereign states. It must have adequate authority to deal successfully with the political and economic problems of present-day Germany and, in particular, to enable Germany to play a major role in the European Recovery Program.

4. The structure of such a government need not be specified and should not be dictated by the occupying powers. But its democratic character should be assured by the existence of a popularly-elected assembly, reflecting and responsive to the political will of the electorate. Its federal character might well be embodied in a second house representing the governments of the various States.

5. There should be full and adequate guarantees against the danger of executive centralization, and the executive, whether independent of the legislative branch or operating on the principle of parliamentary responsibility, should be subject to direct democratic controls.

6. The integrity and independence of the judiciary should be fully assured under the constitution.

7. The principle of maximum delegation of administrative responsibility should be upheld, but not to the extent of withholding from the government the authority essential to insure the enforcement of its own enactments.

8. Local self-government should be assured to the greatest degree practicable.

9. There should be specific and comprehensive guarantees of civil rights and personal freedoms.

10. There should be a rational readjustment of land boundaries with a view to making each State a sound administrative unit, with due regard for economic realities and cultural traditions, and for the principle that no single State should be strong enough to dominate the central regime.

11. The financial integrity of the States should be assured so that they will be free of domination by government through control of vital sources of revenue. The government should, however, be assured adequate financial means.

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12. Centralized control over police and security forces should be avoided; State autonomy should prevail with respect to cultural, educational and religious affairs.

13. The details of a governmental structure for Germany should be worked out by a democratically-elected German constituent assembly, subject to approval by the occupation powers and direct ratification of the German electorate.¹

The State Department paper was in general agreement with OMGUS thinking, as well as that of German constitutional experts. It omitted, however, two questions that later became bones of contention between OMGUS and German officials: whether the civil service should be politically neutral and whether civil servants should be permitted to sit in Parliament.

Interim Discussions in Berlin

The first session of the London Conference, which ran from 23 February to 5 March, 1948, reached agreement on certain very general principles. It did not, however, arrive at any specific conclusions and particularly not on the question of distribution of powers between the future West German Government and the Laender. The Conference adjourned from 5 March to 20 April, 1948, during which interval the three Military Governors were instructed to consider and report on the political structure for Western Germany, economic coordination and various other problems.²

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1. State Department policy paper "U.S. Policy Regarding the Formation of a Definitive Governmental Regime in Germany", 7 Feb 1948, CAD File A 3610, Germany, RG 122, DRB. SECRET
 2. Decision 397; London Six-Power Conference, Communique of 8 March 1948, Story in Documents 75-76.

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While these Berlin conversations were progressing, Marshal Sokolovsky broke up the Allied Control Council. Shortly thereafter, the Soviets began insisting on boarding US military trains. Gen Clay's proposal was to arm the trains, but Washington shrank at the thought of provoking an "incident". Possibly a result of this, the Soviet authorities drew the conclusion that the United States could be forced out of Berlin.

At the same time, plans for the transfer of occupation administration to the State Department, which had reached the stage of detailed studies, were postponed indefinitely. It had become apparent to influential members of Congress that a transfer under the existing situation would be inadvisable, and the Department of the Army was advised through a confidential intermediary that the power over appropriations would be invoked if necessary to stop the transfer.¹ It was agreed that studies already initiated would be completed and kept in reserve.²

On the diplomatic level, the Soviet Ambassador in Washington protested against the London discussions, and an Assistant Secretary of State rejected the protest in civil but unambiguous language.³ In Berlin, the working party considering political structure for Western Germany lost itself in detail, making little or no progress on major principles.

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1. Letter, Carl J. Friedrich to Kurt Glaser, 18 May 1954.
 2. Cable, CSCAD to OMGUS, WAR 98204 of 24 March 1948, CAD Numerical File, RG 122, DRB. CONFIDENTIAL
 3. Note from Asst Sec of State Norman Armour to the Soviet Ambassador at Washington, 26 March 1948, Documents on Unity 103-105.

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Gen Clay, however, heard that Maurice Couve de Murville, a member of the French delegation in London, was interested in discussing governmental problems informally. At Gen Clay's invitation, Couve de Murville came to Berlin on 6 April 1948 for a three-day visit during which it turned out that Franco-American differences were not as deep as they had appeared. Gen Clay writes of this episode:

"Our discussions disclosed that basically the French Government, like ours, was interested in principles which would avoid the creation of powerful central control. When some of our detailed differences were raised, Couve de Murville would toss them aside as detail and irrelevant to our real purpose.

"This convinced me that we should make a new approach to the problem, avoiding discussion of many details which might not necessarily develop in the German draft. We should concentrate on establishing the broad principles to be given to the German Assembly for its guidance and also the principles which would be given to the military governors to guide them in determining whether the constitution conformed to these broad conditions."

Gen Clay then dictated a brief memorandum which Couve de Murville, after showing it to the French Military Governor, Gen Koenig, approved as a basis for possible agreement. This memorandum, which Gen Clay quotes in its entirety, contained the following principles (cited here in summarized form):

1. A constituent assembly will be held not later than 1 September 1948 to prepare a constitution for ratification by the several states.
2. The delegates to this assembly will be elected by the people under procedures adopted by the several states.
3. Delegates will be apportioned to each state on the basis of one delegate per 750,000 population.
4. The constituent assembly will draft a democratic constitution establishing a federal government structure protecting state rights and guaranteeing individual rights and freedom. It will determine the boundaries of the states, recognizing traditional patterns and avoiding states which are too large or too small in comparison with the others.
5. The constitution will be examined by the occupying powers for compliance with the objectives outlined herein. If it so complies, it

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will be submitted for ratification by the several states under such procedures as these states may adopt. When ratified by two-thirds of the states it will become the Constitution and binding upon all states. Amendments must be ratified in like fashion.

6. The constituent assembly will designate an electoral committee to arrange for elections concurrent with the ratification of the constitution. The government so elected will take office thirty days after ratification by the requisite number of states. This government will then be charged with governing as provided in the constitution except as foreign relations are handled by the occupying powers pending a peace treaty.

7. Except in the field of foreign relations and there only as required by existing circumstances, allied supervision and control will be directed to requiring adherence to the constitution and to exercising such control of war potential as may be determined.

8. Prior to establishment of trizonal German government it is impracticable to establish trizonal Allied control. In the interim, steps will be continued to ensure full economic coordination of the trizonal area and the French Zone.

The Military Governors amended this memorandum slightly and submitted it to the re-opened London Conference for discussion. It was, as Gen Clay writes, the basis on which agreement was reached.¹

In the meantime, the Department of State sent new instructions to Ambassador Douglas on negotiation of Ruhr control, designed to assure that international allocation of coal would not jeopardize the financial interest of the United States so long as U.S. support of Germany might continue.² The Military Governors agreed among themselves and with Benelux representatives on procedures for closer association in policy matters.

1. Decision, 397-400.

2. Cables, WD to CINCEUR, Draper personal to Clay, WAR 99539 of 13 April 1948, GMD Memorial File, RG 226, and the MIL Attache London to OSCID, 28 April 1948 - (WD-CM IN-6664 of 29 April 1948), P & O decimal file 091 Germany, DRB. SECRET Decision 400.

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The Resumed London Conference Results in Agreement

The second session of the London Conference lasted for some weeks, during which Gen Clay was forced to commute between London and Berlin. Eventually, however, it reached agreement on all subjects including the association of Benelux countries in policy regarding Germany; international control of the allocation of Ruhr coal, coke and steel; provisional adjustments of German western frontiers (over General Clay's objections); reorganization of the Laender; trizonal export-import policy; security measures; and the most important procedure for the establishment of a West German Government.¹

The official report of the London Six-Power Conference, completed on 1 June 1948, had a number of annexes dealing with the foregoing subjects. Those most important in terms of West German Government were Annexes F, H and I.²

Annex F entitled "Political Organization," contained a series of instructions to the Military Governors, as follows:

"1. The three Military Governors, will, not later than 15th June 1948, call a joint meeting of the Ministers-President of the States of their respective zones.

"2. This meeting will be instructed to examine the boundaries of the several states in order to determine what modifications might be proposed to the Military Governors. (Such changes will consider traditional

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1. Six-Power Conference, Communique of 7 June 1948, with annex on international control of the Ruhr, reprinted in Decade 575-581.
 2. Report on London Conference of 1948, with Annexes, OMBUS Top Secret Control, KCRC. The report itself as well as Annex K are, as of this writing, still Top Secret and therefore cannot be cited in this manuscript.

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patterns and avoid creating states which are too large or too small in comparison with others. The changes, if not disapproved by the Military Governors, will be voted on by the people of the affected areas not later than the election of the Constituent Assembly.)

"3. The meeting of the Ministers-President will also be informed that they are authorized to convene a Constituent Assembly to be held not later than 1st September 1948 in order to prepare a Constitution to be ratified by the participating states, to communicate this fact to the various states and to make the necessary arrangements.

"4. The delegates to this Constituent Assembly will be chosen in each of the existing states under such procedure and regulations as shall be adopted by the legislative body of each of these states.

"5. The number of delegates from each state will be in the proportion that its population is to the total population of the participating states. (Seats will be apportioned at the ratio of 1 to 750,000 or a similar recommended by the Ministers-President and approved by the Military Governors.)

"6. The Constituent Assembly will draft a democratic constitution which will establish for the participating states a governmental structure of federal type which is best adapted to the eventual reestablishment of German unity at present disrupted, and which will protect the rights of the participating states, provide adequate central authority, and contain guarantees of individual rights and freedom.

"7. If the Constitution as prepared by the Constituent Assembly does not conflict with these general principles the Military Governors will authorize its submission for ratification. The Constituent Assembly will thereupon be dissolved. (Ratification will be by referendum requiring a simple majority of the voters in each state.) When the Constitution has been ratified by two-thirds of the states, it will come into force and be binding upon all states. Thereafter, any amendment to the Constitution must be ratified by a like majority of the states.

"8. (The Ministers-President of the existing states will take timely steps for the election of Assemblies of modified states so that all State Assemblies can determine electoral procedures for ratification of the Constitution, as in paragraph 7.)

"9. Within thirty days following the coming into force of the Constitution, institutions will be established as determined by the Constitution.

"10. Prior to the convening of the Constituent Assembly, there shall be a determination of the control and administrative powers which the

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occupying authorities intend to retain as regards both the proposed Government of the participating states and the governments of the states themselves.¹

Annex H was a "letter of advice to Military Governors regarding German Constitution," and is quoted in its entirety as follows:

"1. The Governments of the three Occupying Powers recognize that there are several ways in which the decentralized Federal Government provided in TRI/13 (Final) can be obtained, and that it is impossible to determine if the Constitution satisfies the requirements of a decentralized Federal Organization until it has been examined in its whole context.

However, the three Governments believe that a desirable governmental structure for Germany should, to the maximum extent possible, provide;

a. For a bicameral legislative system in which one of the houses must represent the individual states and must have sufficient power to safeguard the interests of the states;

b. That the executive must only have those powers which are definitely prescribed by the Constitution and that emergency powers, if any, of the executive must be so limited as to require prompt legislative or judicial review;

c. That the powers of the Federal Government shall be limited to those expressly enumerated in the Constitution and in any case shall not include education, cultural and religious affairs, local government and public health (except, in this last case, to secure such co-ordination as is essential to safeguard the health of the people in the several States); that its powers in the field of public welfare be limited to those necessary for the coordination of social security measures; that its powers in the police field be limited to those approved during the period of the occupation by the occupying powers² and thereafter as defined by international agreement;

1. TRI/13 (final) London, 31 May 1948, OMGUS Civil Administration Division files, KCRC. SECRET Portions quoted between parenthesis are slightly condensed, the rest verbatim.

2. The following understanding was reached on this subject: 1) The Military Governors must decide in detail what powers the Federal Government should have as regards police, 2) When the German Constituent Assembly presents its proposals for the Constitution, the Military Governors will disapprove the grant of any powers regarding police exceeding those which they have accepted by agreement among themselves as being necessary.

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d. That the powers of the Federal Government in the field of public finance shall be limited to the disposal of monies including the raising of revenues, for purposes for which it is responsible; that the Federal Government may set rates and legislate on the general principles of assessment with regard to other taxes for which uniformity is essential, the collection and utilization of such taxes being left to the individual States; and that it may appropriate funds only for purposes for which it is responsible under the Constitution;

e. That the Constitution should provide for an independent judiciary to review federal legislation, to review the exercise of federal executive power, to adjudicate conflicts between Federal and Land authorities as well as between Land authorities and to protect the civil rights and freedom of the individual;

f. That the powers of the Federal Government to establish federal agencies for the execution and administration of its responsibilities should be clearly defined and should be limited to those fields in which it is clear that state implementation is impractical.

2. The Military Governors are charged with the examination of the Constitution in terms of these guiding instructions bearing in mind that the purpose of such examination is to test the provisions of the Constitution as a whole to determine whether they guarantee a federal type of government.¹

Annex I, entitled "Letter of Advice to Military Governors Regarding Powers of Civil and Military Governments," established the principles for an Occupation Statute granting legislative, executive and judicial power to German Governments, reserving to the Military Governors the power to:

- a. Conduct or direct Germany's foreign relations until such time as she may be permitted unrestricted foreign relations;
- b. Exercise the minimum control over German foreign trade, and over internal policies and measures which could adversely affect foreign trade, necessary to ensure respect by the German authorities for obligations entered into by the Occupying Powers in regard to Germany and the proper use of funds made available to Germany;

1. TRI/15 (Final) London, 12 May 1948, COMUS Civil Administration Division files, KGRG. SECRET

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- c. Exercise such controls as have been or may be agreed upon, as for example, regarding the international authority for the Ruhr, reparations, the level of industry, decartelization, disarmament and demilitarization, and certain aspects of scientific research;
- d. Protect the prestige and ensure the security of the Occupation Forces and the satisfaction of their requirements within defined limits agreed upon between the Military Governors;
- e. Ensure the observance of the Constitutions which they have approved."

The Military Governors would resume exercise of their full powers if an emergency arose that threatened security, or if it was necessary in order to enforce the Constitutions or the Occupation Statute. They would exercise their controls as follows:

- (a) Amendment to the Constitutions would require approval of the Military Governors;
- (b) In the reserved fields, German authorities would be held to decisions or directions of the Military Governors;
- (c) Except in special cases German laws and regulations would come into force within twenty-one days unless disapproved by the Military Governors, after a majority vote, whenever Federal Government was concerned;
- (d) Before approving changes in State boundaries, the Military Governors would agree on an organization of Military Government in the States concerned.

Without restricting the powers accorded to the Germans, the Military Governors were, nevertheless, to observe, advise and assist the Federal and Land (State) Governments in the democratization of political life, social relations and education. They were to make clear that the German people would be accepting the Constitution within the framework of the Occupation Statute.¹

1. TRI/17 (Final), London, 11 May 1948, OMGUS Civil Administration Division file, KCRC. SECRET. Summarized here except as quoted in quotation marks.

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The decisions of the London Conference of 23 February - 2 June 1948 constituted the basic government-level guidance to all three Western Military Governors on the formation of a federal government for Western Germany. The acceptance of the conference report by the United States and British Governments was a foregone conclusion. Being in the nature of executive agreements, the conference papers did not require ratification by the US Congress or the British Parliament.

Negotiations With the Ministers-President Under the London Agreement

United States and British acceptance of the London recommendations was announced by the respective foreign ministers on 9 June 1948. In doing so, Secretary of State Marshall once more invited the Soviet Government to join its zone with the US, British and French Zones. The only reply he received was a note of 18 June from the Polish Ambassador, protesting the London decisions, followed by a resolution in a similar vein passed at Warsaw on 24 June by the Foreign Ministers of the USSR and its satellites.¹

French acceptance of the London agreement presented a special problem. Under the French Constitution of 1946, combined with a highly fragmentized party structure including strong extreme parties, efforts to overthrow the cabinet were difficult to resist. Since any agreement

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1. Statement by Sec Marshall announcing US acceptance of the recommendations of the London Conference, 9 June 1948, Story in Documents 83-84; Note of US Dept of State to Polish Ambassador at Washington and Declaration by the Foreign Ministers of the USSR and Satellite Countries at the Warsaw Conference, 24 June 1948, Documents on Unity 109-114.

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which appeared to improve the lot of the Germans was politically explosive, the French Cabinet found it necessary to ask the National Assembly to approve the London recommendations. As it appeared that the Assembly might reject London altogether, Gen Clay suggested an alternate plan for transforming the existing Economic Council into a provisional government.¹

Undersecretary of the Army Draper discussed the problem with the Department of State and then cabled to Gen Clay that since French participation was held very important, any reservations made by the French in approving the London recommendations would have to be evaluated in Washington. Since Gen Clay considered the London agreement a minimum basis for West German government, Draper's cable made him fear that the US and British Governments might yield to French proposals, already being made, for the weakening of the London plan. On June 17 Draper was able to reassure Gen Clay that Bevin and Douglas had categorically rejected all such proposals. It was only intended, if necessary, to agree on face-saving language that might mollify the French but would not jettison the essential provisions of the London agreement. If the French Assembly should reject the London Agreement outright, or if the French should make unacceptable reservations, Gen Clay was authorized to proceed toward bilateral government. If the French should make ambiguous reservations, the US Government would suggest to the British that the program for political

1. Cable, CINCEUR to D/A, CC 4650 of 11 June 1948, CAD numerical file, HQ 122, DRB. SECRET

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organization in Bizonal Germany would be initiated and the French reservations considered in the meantime.¹

The French National Assembly approved the London recommendations in a resolution of 17 June 1948, which passed by a margin of only six votes. The reservations contained in this resolution did not affect the substance of the London agreement, so that the Military Governors were able to hold their first meeting with the Ministers-President on 1 July 1948. At this meeting Generals Clay, Robertson and Koenig explained verbally the substance of the London recommendations, and then handed the Ministers-President three documents which summarized the contents of Annexes F, H and I.²

It has been suggested by contemporary observers that the presentation of the London proposals by the Military Governors was couched in somewhat Olympian language that tended to alienate the German Ministers-President. In any case, the latter declined to give an immediate answer, and suggested a further meeting on 20 July 1948. From 8 to 10 July the Ministers-President met in Koblenz where they agreed on comments on each of the Military Governors' documents.

1. Cable, D/A to CINCEUR, Draper personal to Clay, WAR 84027 of 17 June 1948, OMOUS AG decimal file 010.1 Occupation Statute, KCRC. SECRET (downgraded from TS).

2. These documents, MGMP/P (48) 1, 2 and 3 respectively, are reprinted in Governing, Appendix C, and in Constitution 43-45. A fourth document mentioned by Gen Clay (Decision 409) merely stated that Mil Gov advisers would be available to assist the Ministers-President and the Constituent Assembly.

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The Koblenz resolutions of the Ministers-President constituted by no means a full acceptance of the London proposals. While the heads of the German Laender welcomed the intention of the occupying powers to combine their zones into a unified territory, they considered that "nothing should be done to give the character of a state to the organization which is to be formed, notwithstanding the granting of the fullest possible autonomy to the population of this territory." They indicated that tri-zonal institutions would have to be recognized as having a strictly temporary character, owing their origin exclusively to the division of Germany into Eastern and Western spheres of influence. The Occupation Statute, they stated, should be proclaimed before the start of German constitutional discussions, so these would have a firm foundation.

In the comments on Document I, the Ministers-President agreed to assume the powers delegated to them on 1 July 1948. Although preparation of a formal constitution by a national assembly should be postponed until the restoration of German unity and sovereignty, they would recommend to the Land Assemblies election of a "Parliamentary Council" charged with drafting a basic law and an election law. The basic law would provide for a directly elected popular organ exercising the functions of a democratically elected parliament, as well as an organ representing the Laender. The Ministers-President, after consulting the Land Assemblies, would submit the basic law drafted by the Parliamentary Council for the Military Governors' approval. Elections for the national representative organ would take place during 1948.

On the second document, pertaining to Land boundaries, the Ministers-President commented that immediate reform should be limited to Southwest

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Germany where the US-French Zonal border had split the Laender of Wuerttemberg and Baden.

In general, the Ministers-President agreed with the Allied proposals for an occupation statute. They wished, however, recognition of the presumption that in case of doubt the German organs would be considered competent. Control of German foreign trade should be exercised only where Allied interests were directly at stake or where necessary for purposes of reparations, industrial disarmament, decartelization or demilitarization. Occupation courts should restrict their jurisdiction to cases involving occupation personnel, and mixed courts should be established for litigation between Germans and nationals of the occupying powers.

The Ministers-President felt that the question of a Ruhr authority should not be in the occupation statute, since this was a specialized subject. Occupation costs, on the other hand, should be included in the statute. They should be determined in advance by the Military Governors jointly in consultation with the German authorities, and should not exceed a fixed percentage of the governmental budget.¹

The Koblenz resolutions provoked some consternation in OMGUS. They were widely interpreted as a rejection of the London proposals, and some Military Government officials wondered whether the German politicians really wanted their own government after all. Certainly, by shifting the frame of reference from that of a government to a mere provisional

1. Koblenz Resolutions of the Ministers-President, 10 July 1948, Governing, Appendix D, pp 545-551.

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organization which would avoid calling itself a state, the resolutions provoked a crisis in occupation policy.

The Ministers-President had, however, understandable reasons for proceeding slowly. As Gen Clay points out, the narrow margin with which the French Assembly had ratified the London agreement left room for doubt of the firmness of Allied policy. The Berlin blockade had just started, and the Western Powers had not yet demonstrated their will and power to remain in the city. Furthermore, an appreciable sector of German political thought, predominantly in the Social Democratic Party, held that there was still a chance to achieve German unity which might be jeopardized by setting up a formal government in the West, and that the population of the Soviet Zone would feel that they were being "written off".

Gen Koenig, in line with French thinking generally, was quite ready to accept the Koblenz proposal for a more limited governmental structure. At an informal meeting on 20 July, however, Generals Clay and Robertson explained that the London decisions were governmental, that changes would require governmental negotiations, and that the Germans would have to accept responsibility if they rejected the opportunity to return government to German hands.

There was a further recess, and much behind-the-scenes negotiation, during which Mayor Reuter of Berlin explained that the population there and in the Soviet Zone would welcome the strengthening of a free Germany in the West. Finally, at a lengthy meeting on 26 July 1948 a compromise was reached. It was agreed that the Land Assemblies would choose delegates to a Parliamentary Council and that the document developed by this

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Council would be known as the Grundgesetze which, as the Ministers-President pointed out, could be translated as "Basic Constitutional Law." The Ministers-President yielded to the Military Governors by agreeing that the Grundgesetze would be submitted to a popular referendum. Arrangements could therefore be made for the convening of the Parliamentary Council without delay. The procedures for election of the members of this Council by the Land Assemblies were regulated in a protocol signed by the Ministers-President on 8 August 1948.¹

The Parliamentary Council Goes to Work But Hits a Deadlock

After French ratification of the London Agreements, Washington had not undertaken to provide further guidance or instructions to Gen Clay, because it was obvious that he needed maximum freedom to negotiate with the other Military Governors and the German politicians. A cable of 13 July 1948 confirmed that there would be no Washington interference with

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1. Governing 39-40, and Decision 409-411. See also Governing, Appendix D, Koblenz Resolutions of the Ministers-President, 10 July 1948 (pp 545-551), Appendix E, Minutes of the Third Meeting of the Military Governors and Ministers-President of the Western Zones on the Future Political Organization of Germany, 26 July 1948 (pp 552-561), and Appendix F, Ministers-President Protocol of 8 August 1948 (pp 561-562). Occupation 271-274 reprints the detailed comments but not the covering letter adopted by the Ministers-President at Koblenz.

Litchfield (Governing 38) describes the Koblenz resolutions as "a disastrously irresponsible German move" which "almost destroyed western German government in the process of conception." While in view of the French attitude the move of the Ministers-President could be criticized as unwise, there is no doubt that it also served notice on the Allies that they would have to think through and accept the implications of their new policy in terms of over-all international relations. Such a reorientation is exactly what happened. As the Germans, under the impact of the blockade and the air lift, became convinced that they were now Allies against Soviet aggression, their attitude toward the occupying powers changed accordingly.

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the preparation of a German Constitution, although the State and Army Departments wished the opportunity to comment on the first draft presented to the Parliamentary Council and on the draft approved by that body before final approval by the Military Governors. Similarly, it was contemplated that the occupation statute would be prepared in the theater and then submitted to the Governments for final approval. The agreement on the Ruhr Control Authority, however, as well as the problem of German western boundaries would be studied by mixed working parties of State Department and OMGUS personnel.¹

In August 1948, some uncertainty in OMGUS was provoked by the publication in America of articles by former Undersecretary of State Sumner Welles and by Walter Lippmann. Gen Clay understood that the latter had been inspired by John Foster Dulles. These articles suggested that a CFM meeting might deal with the Berlin Blockade situation and that the United States might modify its West German plans to appease the Soviet Union. Gen Clay was assured however that: "It is the firm position of State that neither London Agreement nor any other decision on Western Germany will be changed at this time and no action deferred pending a conference on Western Germany or pending a decision by the Conference."²

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1. Cable, CSGPO to CINCEUR, WAR 85721 of 13 July 1948, CAD numerical file, RG 122, DRB. CONFIDENTIAL
 2. Telecon, between D/A, Washington (Sec Royall, Gen Maddocks, P&O, Gen Eberle, CAD and Mr. Bohlen, State Dept) and OMGUS Berlin (Gen Clay and Mr. Murphy), TT 9890 of 3 Aug 1948, CAD numerical file, RG 122, DRB. SECRET (downgraded from TS).

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During August and early September 1948, the four Military Governors met in Berlin to discuss ways and means of ending the blockade and solving the related Berlin currency question. The course of the simultaneous diplomatic negotiations in Moscow, in which the attempt was made to agree on instructions to the Military Governors, caused Gen Clay to fear that the US Government might weaken in its stand against Soviet aggression. As he said in a teleconference on 2 September:

"Certainly we can reach agreement here. What we do not know is how badly agreement is desired and therefore how much we are willing to pay in loss of control in Berlin with consequent loss of prestige.

"Acceptance of Soviet terms will lift the blockade. . ."¹

In conversations with Secretary Marshall and other State Department officials in Paris during September 1948, Gen Clay obtained assurance of government backing for his policy of firmness. In the meantime, the rapidly expanding airlift built up German confidence, thus improving the atmosphere for development of West German government.

In preparation for the work of the Parliamentary Council, the German Ministers-President convened a group of constitutional experts at Chiemsee, Bavaria, who prepared a basic constitutional draft.² The Council convened on 1 September 1948 and set to work on the Chiemsee draft, which went through two revisions in short order.

1. Telecon, D/A Washington (Sec Royall, Undersecretary Draper, and officials of CAD, P&O and State Dept) and OMGUS Berlin (Gen Clay), TT 1131 of 2 Sept 1948, CAD Telecon File, RG 122, DRB. SECRET (downgraded from TS) Decision 375-377.

2. The Chiemsee proposal is reprinted in Constitution 64-77.

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The two largest parties in the Parliamentary Council were the CDU/CSU (Christian Democratic Union, known in Bavaria as the Christian Social Union), which favored states' rights, and the SPD (Social Democratic Party), which preferred a more powerful central government. A small group from the FDP (Free Democratic Party) sided with the SPD on the question of centralization but opposed the SPD's socialist policies. By November 1948 the preliminary drafts of the basic law indicated a greater centralization of power in the federal government than was contemplated in the London proposal. Since the President of the Parliamentary Council had suggested that Military Government comment on the various drafts and since Gen Koenig was becoming alarmed at the appearance of centralist tendencies, Generals Clay and Robertson agreed to send to the Council an aide memoire setting forth the Allied view of the minimum requirements for a democratic and federal constitutional document. The Military Governors felt that the basic law should to the maximum extent possible provide:

- (a) For a bicameral legislative system in which one house represents the states and has sufficient power to safeguard their interests;
- (b) That the powers of the executive be definitely limited by the Constitution, emergency powers if any requiring prompt legislative or judicial review;
- (c) That the powers of the federal government be limited to those enumerated in the Constitution exclude education, cultural and religious affairs, local government or (except for limited coordinating powers) public health and welfare, federal police power being limited to that approved by the Military Governors;
- (d) That the financial powers of the federal government be limited to raising and disbursing federal funds and setting rates on taxes for which uniformity is essential, collection and utilization of such taxes being left to the individual states;
- (e) That an independent judiciary review federal legislation and the exercise of federal executive power as well as adjudicating conflicts of authority and protecting individual rights;
- (f) That the powers of the federal government to establish federal agencies be defined and limited to fields in which state administration is impracticable;

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- (g) That each citizen have access to public office on the basis of fitness for the job and that Civil Service be non-political in character;
- (h) That a public servant elected to the federal legislature resign before accepting election.

After receiving the aide memoire, the Parliamentary Council requested a meeting of its representatives with the three Military Governors. This meeting, which was held on 16 and 17 December 1948, produced a certain clarification of issues but no very tangible results.¹

DEVELOPING THE NEW PATTERN OF OCCUPATION ADMINISTRATION

Adoption of a German basic law was only part of the process of achieving a West German government. The London decisions had obligated the occupying powers to reach agreement on four additional subjects: The Occupation Statute, the Charter of the Allied High Commission, the International Authority for the Ruhr, and the Military Security Board. These were the subjects of parallel and sometimes overlapping negotiations. Harmony was sometimes impaired by a French notion that the London agreement constituted a license to intervene in bilateral affairs pending fusion of the three zones, a point of view with which Generals Clay and Robertson did not agree.² Except in the case of the Ruhr authority, it was contemplated that agreement would be reached in the theater and then reviewed at governmental level.

1. The aide memoire of 22 Nov 1948 is cited here in summarized form. The full text appears in Governing, Appendix G, pp 563-564, also in Constitution 105-106. See also Governing 40-42, Decision 411-413 and 419-420, and Constitution 88.

2. Decision, p 407.

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Theater-Level Negotiations on the Occupation Statute

On 18 June 1948 Under Secretary Draper sent Gen Clay a rather general cable on the Occupation Statute, emphasizing its governmental and legal importance and indicating that the Departments of Army and State proposed to make some joint studies in the field.¹ This cable did not restrict the freedom of OMGUS negotiators, who were having difficulties enough because of French insistence on reserving powers that British and US Military Government considered had to be granted to the Germans. In August, however, when Gen Clay recommended that the Occupation Statute be as short as possible, he received a reply listing restrictions desired by the Department of the Army that would have made the Statute long and legalistic.²

Gen Clay considered his instructions flexible enough to authorize presenting a less restrictive proposal in theater-level negotiations. On 4 October, however, the Department of the Army commented in a teleconference that the OMGUS draft was "most general and probably does not reserve to occupation authorities adequate powers for protection and operation of the Forces." Nor did it give the Germans adequate protection from the occupation authorities, particularly with respect to civil liberties.

The differences between Washington agencies and OMGUS hinged largely on the question whether the language of the Occupation Statute should be

1. Cable, D/A to CINCEUR, Draper personal to Clay, WAR 84136 of 18 June 1948, OMGUS AG Decimal File 010.1 Occupation Statute, KCRC. SECRET (downgraded from TS)
2. Decision, pp 412-13.

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general or specific. Where Gen Clay, for instance, had reserved the power to "exercise the minimum control over German foreign trade and foreign exchange. . . necessary to insure respect for obligations entered into by the occupying powers," the Department of the Army felt that the controls should be spelled out. OMOUS countered with the objection that departing from the generalized London wording would lead to a flood of detailed technical control proposals from the French and British. It was held in OMOUS that the Statute should list the emergency powers of the Military Governors, the manner of their exercise being covered separately in the Tripartite Fusion Agreement. The Department of State felt, however, that an unqualified emergency power infringed too seriously the self-government rights of the Germans, and therefore that the Statute should state exactly how such power was to be exercised.¹ The substance of some of the Washington comments indicated their origin in technical branches of the Department of the Army, such as the Army Service Forces, which feared that the relinquishment of occupation rights would make their functions in the theater more difficult.²

1. Ltr, Carl J. Friedrich to Kurt Glaser, 18 May 1954.

2. A particular subject of attack was Article 16 of the OMOUS draft which prohibited removal of food from the German economy, limited coal and electricity usage and indigenous personnel of the occupation forces and halted requisitioning of furniture and additional real estate. Plans and Operations thought that the paragraph might prevent obtaining housing and furniture needed for airlift personnel and troop reinforcements. Logistics opposed surrendering existing rights to meet occupation requirements by requisition on the German economy, and the Army Comptroller considered that the paragraph would lead to the need for additional appropriations. Disposition sheet with attached papers, originated by GAD on 5 Oct and noted by C/S on 7 Oct 48, with attached cable (dispatched as WARR 90479 of 8 Oct), WISCA Decimal File 014 Germany, EO 122, DRB. SECRET (downgraded from TS). Additional comments and questions in same vein are

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On 8 October 1948 the Department of the Army cabled its own comments and those of the State Department on the OMGUS draft Occupation Statute. These were largely technical but included the following substantial points:

(a) The preamble should state clearly the basic purposes of the Statute, namely, to unify occupational authority; without relinquishing the supreme authority of the occupying powers to limit its exercise and to further the initiative, responsibility and authority of the Germans; to guarantee to the Germans basic civil liberties; and to demarcate the authority to be exercised by the occupying powers and the German administration.

(b) The provision authorizing veto of German legislation should not be limited as to reasons.

(c) On the matter of reserved powers, the Army preferred the OMGUS draft but the State Department suggested that the language reserve fields of action rather than particular controls exercised within these fields, which the OMGUS draft had done.

(d) The conditions under which the Military Governors might declare existence of an emergency should be specified.

(e) In spite of its evident usefulness, the power to require dismissal of German public servants should be deleted as particularly odious to the Germans.

contained in cables WAR 91431 of 25 Oct and WAR 91719 of 29 Oct 48. CAD Numerical File, RG 122, DRB. SECRET

Cable, CINCEUR to D/A, Clay personal to Draper, CC 6123 of 29 Sept 48 (containing OMGUS version of the Occupation Statute), OMGUS AG Decimal File 010.1 Occupation Statute, KCRC. SECRET (downgraded from TS); Telecon, between D/A Washington (officials of CAD, OUSA and Office of Army Comptroller) and OMGUS Berlin (officials of Legal, Budget and Fiscal, Civil Administration, Civilian Research Control Divisions and Control Office), TT 1360 of 4 Oct 48, CAD Telecon File, RG 122, DRB. SECRET (downgraded from TS).

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(f) Provisions in the OMGUS draft limiting occupational requirements might prove embarrassing in the case of expanded airlifts, increase of occupational forces, etc.¹

A comparison of the original OMGUS draft Occupation Statute and the draft in process of tripartite negotiation in December 1948 suggests that although these comments may have been considered, they were apparently not followed. Although Gen Clay favored a "short" Occupation Statute, the U.S. draft negotiated during this period was at least twice as long as the Statute finally adopted, while the U.K. and French drafts were even longer.

Although the negotiations in the theater narrowed the number of points of disagreements in the Occupation Statute, those that remained were thorny. On 31 October, Gen Clay listed several issues that he thought might have to be settled at governmental level. These included Military Government jurisdiction over displaced persons, which the British wished to abandon and establishment of a neutral court to interpret the Occupation Statute, a proposal that the French would not accept. The French also objected to pooling occupation costs, since they wished to remain free to impose special requirements on the French Zone Laender. Continued French references in discussions to the responsibilities of zonal commanders and to control of state government suggested that the French intended to be somewhat independent in running their Zone

1. Cable, D/A from CSCAD to CINCEUR personal, WARI 90479 of 8 Oct 1948, OMGUS AG Decimal File 010.1 Occupation Statute, KCRC.
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regardless of trizonal fusion.¹ Gen Clay followed these observations with a long cable of 22 November in which he complained of French policies generally, pointing to

"... an increasing conflict between American and French policy which leads to almost daily disagreements in our operations in Germany. We propose to re-establish a self-sustaining Germany at the earliest possible date as we believe such a Germany essential to a sound European economy and also to stop the continued need for financial support from the United States. . . our efforts. . . are in direct conflict with French desires to retard German recovery."²

By 17 December 1948, negotiations on the Occupation Statute had reached a point where the Military Governors were unable to resolve their remaining differences. Accordingly, a draft joint text of the Occupation Statute was prepared, giving the agreed text as far as it went with alternate wording for those articles still in disagreement. These involved such subjects as the extent of control over German foreign trade, industry including cartels, and scientific research; responsibility for displaced persons; German consular representation abroad; the jurisdiction of German courts; and the machinery for adjudicating appeals under the Statute. A report of the three Military Governors referred the Occupation Statute to the three Governments for further negotiation.³

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1. Cable, CINCEUR personal from Clay to D/A for CSCAD, CG-6525 of 31 Oct 1948, OMOUS AG Decimal File 010.1 Occupation Statute, KCRC. SECRET (downgraded from TS).
 2. Almost the entire text of this cable is quoted in Decision 414-416.
 3. Report, of the Military Governors of the French, U.S. and British Zone of Occupation in Germany on the Occupation Statute, with attached draft joint text of the Occupation Statute, Appendices "A" and "B" to TRIB/P (48) 14/1 - TOS/P (48) 1/6, 17 Dec 1948, OMOUS Civil Administration Division File, Occupation Statute, KCRC. SECRET

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Theater Negotiations on Tripartite Military Government Fusion

Tripartite conversations had also been taking place in the theater on the principles for trizonal fusion of the Military Governments. The main issues in this field were the recognition of the major United States voice in economic matters necessitated by American financial support to the three Zones and the relation between tripartite and zonal controls over German government. There was little or no communication between Washington and the theater on trizonal fusion during the latter half of 1948, but as Gen Clay writes, "I did not feel that our negotiations in Germany had gone far enough to develop basic differences."¹

It is worth noting in passing that OMGUS planners were thinking of an integrated tripartite control agency. There would be a tripartite Military Government Board with rotating Chairmanship and a single director-general for each of the following: economic affairs, governmental affairs, education and culture, demilitarization, legal advice, secretariat, and management control. Professional staffs would be assigned at the ratio of two US, two UK and one French member, who would for logistic purposes continue as employees of their respective governments.²

Occupation Statute and Fusion are Referred to the Diplomatic Level

The Occupation Statute and the trizonal fusion question were referred to a working-level diplomatic conference to meet in London on

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1. Decision 417.
 2. Draft tripartite agreement for the organization of Military Government, 25 August 1948; Memorandum from Director of OMGUS Civil Administration Division to Chairman of the Committee on Tripartite Military Government Organization, 20 Jan 1949; OMGUS Civil Administration Division File "General Matters," KCRC. SECRET

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17 January 1949. Theater advice on instructions for the American delegation were sought in a series of State-Army-OMGUS teleconferences.¹ The instructions sent to the delegation on 18 January 1949 were in substance to work out technical details with the British and French but to reserve the U.S. position on ultimate support of the Conference recommendation until tripartite agreement should be reached on certain essential points. These were considered to be:

(1) While U.S. makes major contribution for imports, it should have controlling voice in agencies dealing with foreign trade and exchange.

(2) Other reserved powers should be exercised by majority vote.

(3) Individual Military Governor should be able to appeal exercise of powers under (1) and (2) to governments. Such appeal would suspend action thirty days but no longer in case of governmental disagreement.

(4) The three Military Governors, as the Tripartite Board, would have an organization functioning throughout the trizonal area so that reserved powers would not be exercised on a zonal basis.

(5) Trizonal agreement should continue so long as U.S. makes major import contribution.

Since the United States considered certain aspects of the Occupation Statute and the Trizonal Fusion Agreement inseparable, the delegation was instructed to discuss these points in both documents simultaneously.

In the meantime, Gen Clay had complained that he was unable to understand his copies of cables from London to the State Department, since he had not been furnished copies of the redrafts of the Occupation Statute that were to be discussed. In the cable relaying the delegation's

1. Memorandum for Record with Minutes of Teleconferences held 31 December 1948 and 4 Jan 1949 between OMGUS and Dept of Army and State re. Occupation Statute, Civil Administration Division, OMGUS 5 Jan 1949; OMGUS Civil Administration File, Occupation Statute, KCRC. SECRET

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instructions to Gen Clay, the Department of the Army added almost as an afterthought that the State Department had made all the arrangements for the conference without Department of the Army concurrence. Only the day before the conference was agreement reached and the decision made that the Department and preferably COMUS as well should be represented on the U.S. delegation.¹

Gen Clay was not optimistic about the forthcoming London Conference. He still believed what he had told Secretary Royall in late December 1948, that the only way to settle outstanding differences would be for the three Foreign Ministers to sit down together and agree on a "package" solution. The Department of the Army indicated that this view was gaining acceptance in Washington since reserved powers and the exercise thereof, imports and occupation costs were all parts of the same problem.²

Agreements are Reached on Ruhr Control and Military Security

Although the negotiations on the International Authority for the Ruhr were complicated at the start by a French protest against Law No. 75, the bizonal reorganization of the German coal and steel industry, they led to results much faster than in the case of other subjects under discussion. The Ruhr conference was opened in London on 11 November 1948.

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1. Cables: CINCEUR to D/A, Clay personal for Draper CC-7462 of 18 Jan 1949, SECRET (downgraded from TS); SAOUS to CINCEUR, WAR-82970 of 18 Jan 1949, SECRET; CAD Numerical File, RO-122, DRB.
 2. Decision, 417-420; Teleconference of 4 Jan 1949 as cited in Note 1, p 55, SECRET

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Instructions to the United States delegation, headed by Ambassador Douglas, were formulated in the State Department and cabled to OMGUS immediately before the Conference. To save time, Gen Clay was authorized to repeat his comments and suggestions for changes directly to Ambassador Douglas. Two members of OMGUS, including the Economics Adviser, were also appointed as members of the delegation.¹

During the first days of the Conference Forrest Hannaman, one of the OMGUS representatives, objected to State Department instructions on the relationships between the Ruhr authority and OMGUS, the ECA, and the OEEC. The Department of the Army agreed that the instructions given to Ambassador Douglas on this subject were "complicated, unclear, and capable of contradictory interpretation. . ." A few days later, the Department advised Gen Clay that: "Already it is becoming clear to the responsible individuals that there are important considerations which apparently were not taken into account when instructions to Ambassador Douglas on this matter were prepared."²

A more important subject was the question whether the Authority would be limited to allocating the products of the Ruhr, as the United States contended, or would control the management of Ruhr industries as the French demanded. Gen Clay made clear his strong objections to the

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1. Cables, WD to CINCEUR, OUSA to Clay, WAR-91904 of 2 Nov 1948; WD to OMGUS and MA England, WARK-92054 of 4 Nov, WARK-92132 of 5 Nov, WARK-92244 and 92245 of 9 Nov, and WARK-92400 of 10 Nov 1948; CAD Numerical File, RG-122, DRB. SECRET
 2. Cable, WD to CINCEUR and MA England, WARK-92664 of 16 Nov 1948; D/A to CINCEUR, WAR 92931 of 19 Nov 1948; CAD Numerical File, RG-122, DRB. SECRET

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French proposal.¹ The disagreement was finally solved by a compromise recommended by Gen Clay. This was that before termination of military government a tripartite study would recommend which control responsibilities currently exercised by the Allied Steel and Coal Control Group should be transferred to the Ruhr authority. The conference was thus able to agree on the Charter for the International Authority for the Ruhr, which was publicly announced later in December 1948 although not signed until 28 April 1949.²

The negotiations on the Military Security Board were the least eventful. These resulted in an agreement between the Military Governors on 17 December 1948 that was announced to the public on 17 January 1949. The responsibilities of the Military Security Board were to cover the whole field of disarmament and demilitarization, taking into consideration laws and directives agreed already on a quadripartite basis. Its functions included prevention of the revival of military or para-military organisations or of the militaristic spirit, preventing the manufacture of arms and prohibited items, insuring that scientific research would not be directed to warlike ends, and preventing creation of a war potential in connection with merchant shipping and civil air lines.³

1. Cable, D/A to MA England (quoting Gen Clay), WARX-80666 of 4 Dec 1948, CAD Numerical File, RG-122, DRB. SECRET; Decision, pp 338-340.
2. Decision 338-339; Cables, D/A to CINCEUR, SAOUS personal for Clay, WAR-81065 of 10 Dec 1948 and WAR-81162 of 18 Dec 1948, CAD Numerical File, RG-122, DRB. SECRET; Communique on six-power meetings to establish an International Authority for the Ruhr, Occupation 281-290.
3. Three-power establishment of the Military Security Board, Press Statement and Directive on Organisation, Story in Documents 102-105, Occupation 277-280.

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ESTABLISHMENT OF WEST GERMAN GOVERNMENT AND PHASE-OUT OF MILITARY GOVERNMENT

Deadlock in London and in Bonn

At the London conference which opened on 17 January 1949, the US Delegation was headed by Minister Julius C. Holmes, the second ranking diplomatic officer of the US Embassy in London. The Department of the Army representative, Lt. Col. Gerard B. Crook, did not arrive in London until 23 January 1949.

Commenting after the end of the conference, Crook noted the following attitudes on the part of the part of the British and French Delegations:

"a. British unwilling to oppose France on issues which were considered politically critical by the present French Government.

"b. British policy towards Germany appeared to be motivated to some degree by fear of future German industrial and commercial competition. The U.K. Delegation attempted to avoid disclosing this motive.

"c. With respect to the U.S., the British were anxious to avoid placing the U.S. Military Governor in a position where he could employ a dominant voice to veto German social legislation which would be consistent with Labor Party philosophy."

Negotiations were further complicated by two French demands. One of these concerned the port of Kehl opposite Strasbourg, for which the French had established a special regime and which they desired to control on terms practically equivalent to annexation to France. The Kehl issue was used as a bargaining point to obtain US concessions on other questions. At the same time, the French were demanding that North Baden

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1. Memorandum from Lt. Col. Gerard B. Crook to Gen. Maddocks, Subject: Report On London Negotiations, (Jan to April 1949) 14 April 1949, P and O Decimal File 091 Germany, DRB. SECRET

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should be transferred to their zone, a proposal which General Clay opposed categorically for political and logistic reasons. While the Baden issue was discussed only in the theater and through direct Franco-American diplomatic contacts, the question nevertheless lurked in the background of the London negotiations.

Concerning the role of the British, Crook reported:

"...While the U.K. Delegation attempted to pose as a moderate conciliator, bridging the gap between diametrically opposed U.S. and French positions, the British at times gave the impression that they had reached an understanding with the French on several issues of importance to the latter, and expected in return French support on questions in which the U.K. had a primary interest. Occasionally, it seemed that French obstructionist tactics were employed for the convenience of the British."¹

During the first two weeks, the conference made fairly rapid progress toward agreement on the Occupation Statute. Gen Clay felt that this progress was being purchased by too many concessions by the US delegation. On 30 January 1949, he cabled to Draper that reports from London suggested British-French collusion outside the conference and that the United States was losing ground on all issues. He urged that the London conference be adjourned in favor of a high-level conference to consider all issues. Since the Germans had been promised a text of the Occupation Statute on which they could comment, he suggested release of the agreed portions to permit progress by the Parliamentary Council.²

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1. Ibid., Tabs "A" and "B"; Cable, CINCEUR to D/A from Clay to SAOUS, FMPC 185 of 15 Jan 1949, CAD numerical file, RG 122, DRB. SECRET (downgraded from TS)
 2. Cables: CSCAD 100 to CINCEUR, WAR 83159 of 25 Jan (repeating State Dept instructions to London), SECRET; CAD to MA England, info CINCEUR, WARX 83421 of 29 Jan, SECRET; and CINCEUR to D/A from Clay personal to Draper, CG 7600 of 30 Jan 1949, SECRET (downgraded from TS); CAD Numerical File, RG 122, DRB.

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Draper replied that Washington did not consider the London discussions to be in an impasse nor totally unsatisfactory to the United States. The State Department was not yet ready to call a high-level conference to reach a "package" agreement as Clay had suggested. Consideration would be given to the proposal to release agreed portions of the Occupation Statute if the negotiations should break down. Draper also asked Gen Clay not to discontinue theater negotiations on technical phases of the fusion agreement, as the Department of the Army did not want the entire fusion question moved to the governmental level.¹

In a further exchange of cables Gen Clay indicated that he had no further comment on the Occupation Statute except that the United States had made too many concessions already. The document was now so restrictive as to make a responsible West German Government impossible. Gen Clay did not wish negotiations on trizonal fusion to take place in two locations simultaneously. His final position for the United States might be reversed or repudiated elsewhere and "that has happened so often that my ability to negotiate here is destroyed." Clay also rejected the Department's suggestions that OMGUS send a representative to London. The only person familiar with the issues of trizonal fusion was Gen Clay himself, and the General did not feel that his participation in the conference would be appropriate.²

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1. Cable, D/A to CINCEUR from Draper personal to Clay, WAR 83425 of 30 Jan 1949, OMGUS AG Decimal File 010.1 Occupation Statute, KCRC. SECRET downgraded from TOP SECRET.
 2. Cables, CINCEUR to C/S, from Clay personal for Draper, FMPC 279 of 31 Jan 1949, D/A to CINCEUR, WAR 83468 of 31 Jan 1949; and CINCEUR to C/S for CACAS, FMPC 287 of 1 Feb 1949; CAD Numerical File, RG 122, DRB. SECRET downgraded from TOP SECRET

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By 8 February the London Conference reached agreement on a text of the Occupation Statute, except for the composition of the high court to be established to interpret the Statute. The US and British Delegations wanted German representation on the court, to which the French objected. Since the other business of the conference was by no means settled, the matter was left open. Later the French indicated that they would accept a German on the court if the United States and British would accede to the French demand on Kehl.¹

The draft of the Occupation Statute agreed in London on 8 February, 1949 was not communicated to Gen Clay until toward the end of that month. Clay felt that the requirement for prior approval by the Military Governors of German legislation on a variety of subjects was far too restrictive. Even the limited bizonal organization had been given authority to legislate in fields such as decartelization, decentralization and scientific research, and the Occupation Statute would be a step backward. This would be recognized by the Germans and might lead to their rejection of responsibility for forming a government. "I cannot help but feel," Gen Clay added, "that we are developing a Western German Government so restricted as to be less competent than the present German Administration." He then raised the possibility that the Germans might reject the Occupation Statute, which would be embarrassing in view of the wide powers theoretically delegated by the Soviet Union to the East German Government.²

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1. Memorandum, Crook to Maddocks, as cited in Note 1, p 59, TAB "A" Para 5. SECRET
 2. Cables, CINCEUR to D/A for Voorhees, FMPC 473 of 28 Feb, D/A (CSCAD IGO) to CINCEUR, WAR 85270 of 9 March; CINCEUR to D/A, personal from Clay to CSCAD, CC 7973 of 10 March 1949; CAD Numerical File, RG 122, DRE. SECRET (downgraded from TS)

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The London negotiations on the principles of trizonal fusion soon hit a deadlock. The French rejected the US proposal that all matters except those relating to foreign trade and foreign exchange should be decided by majority vote. The British, on the other hand, felt that the US demand for a dominant voice in the fields of foreign trade and foreign exchange was too broad. Gen Clay informed Washington and London of his views that the United States should not sacrifice the degree of control it currently enjoyed in bizonal affairs. After conferring with him, Lt. Col. Crook prepared a compromise which made certain concessions to the British but nevertheless conserved the fundamental principle. This was cabled to Washington early in February, and for the rest of that month the negotiations were at a standstill while the US Delegation in London waited for instructions. On 28 February 1949 London was advised that instructions would be further delayed because of lack of agreement between the Departments of Army and State.¹

During the hiatus in the London negotiations, Gen Clay took occasion to comment on the trizonal fusion agreement as it had progressed so far. He considered the document "a maze of language which would make the effort to soundly administer Germany almost ridiculous." Pointing out that the conference had departed far from the London Agreement, the purpose of which was to eliminate a veto power by any one occupying power, he indicated the maximum concessions which in his opinion would still permit

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1. Cables, CINCEUR to D/A, from Clay personal to Draper, CC 7629 of 3 Feb 1949; D/A to OMGUS, info MA London, WARX 83800 of 6 Feb 1949; D/A (CSCAD ICO) to MA England for Crook, WAR 84824 of 28 Feb 1949, CAD numerical file, RG 122, DRB. SECRET (CC 7629 downgraded from TS)

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successful West German Government. The United States might agree to unanimous approval by the Military Governors of amendments to the German federal constitution. Otherwise, decisions of the occupying authorities would have to be by majority vote, except in those economic and financial matters where the United States had a dominant voice under existing agreements. It was essential that German legislation not disapproved within 21 days after submission by the responsible German officials come automatically into force. The existing document, however, "with its Rube Goldberg procedures, the powers of the veto and the ability to delay given to any one occupying authority" would make the task of administering Germany practically impossible.¹

Early in March, the Departments of State and Army agreed on instructions to Minister Hdmes. Gen Clay, who had discussed the entire problem with Lt. Col. Crook, agreed that one more effort should be made to reach a settlement. By this time, however, the French Delegation had scattered and it was not possible to hold a plenary session until 26 March. As related by Lt. Col. Crook:

"11. It had become apparent by that time that agreement could not be reached on either Trizonal Fusion or Kehl on the basis of the U.S. Delegation's instructions. Since it was then known that the French and U.K. Foreign Ministers would meet with the Secretary of State in Washington to discuss German problems following the signing of the Atlantic Treaty, it was decided a report should be prepared clarifying and framing outstanding issues for reference to the Foreign Ministers.²

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1. Cable, CINCEUR to D/A, from Clay personal to Voorhees, CC 7725 of 11 Feb 1949, OMGUS AG Decimal File 010.1 Occupation Statute KCRC. SECRET (downgraded from TS)
 2. Memorandum, Crook to Maddocks as cited in Note 1, p 59, TAB "A", Para 11; Tables, CINCEUR to D/A, from Clay personal to Voorhees, CC 7927 of 5 March 1949; WD to MA London, OAS to Lt Col Crook, WAR 85207 of 8 March 1949; CAD Numerical File, RG 122, DRB. SECRET (CC 7927 downgraded from TS)

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During the latter stages of the negotiations, the British became irritated by repeated U.S. insistence on the need for expanded control in the economics field in order to placate the Appropriations Committees of Congress. This argument lacked persuasiveness since the British and French realized that a substantial reduction of US financial assistance would require revision of the entire US policy in Europe. Our Allies were also annoyed by the US tendency to reopen matters that had already been substantially agreed, with frequent insistence on particular wording specified in instructions. "At times," writes Lt. Col. Crook, "they seemed convinced that the U.S. was pursuing subtle and undisclosed aims." After discussing the differences between US and British economic objectives, Crook stated that:

"5. The principal difficulty encountered by the U.S. Delegation was the lack of a clear and well coordinated position on several of the most important questions under discussion. Lack of agreement between the Departments of Army and State, between Washington and OMGUS resulted in overly long delays and repeated changes of U.S. proposals. The instructions given the U.S. Delegation were frequently overly rigid. They seemingly failed to take into consideration the fact that almost any proposal made by the U.S. would, as a matter of course, bring forth counter proposals differing at least in form from British or French. A secondary difficulty lay in the fact that the U.S. Delegation was unable to obtain necessary factual information or expert advice regarding Military Government procedures in Germany. . . ."

After Gen Clay had raised the question of what to do if the Germans should reject the Occupation Statute, the Department of Army cabled that it had made no formal study on this subject. Gen Clay was requested to give his advice on alternative actions that might be taken. An OMGUS cable was prepared stating: "I have no views or comments which will be

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1. Memorandum, Crook to Maddocks as cited in Note 1, p 59, Tab "B",
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of assistance to you in formulating an alternative position in the event of such a fiasco." After starting to revise this draft, however, Gen Clay decided to leave the Washington cable unanswered.¹

At the outset of 1949 the German Parliamentary Council was stalemated by conflicting reactions to the advice which the Military Governors had given on 17 December 1948. Because Allied negotiations on the Occupation Statute and the Fusion Agreement were also deadlocked, Military Government was not in a position to urge the Germans to make haste. Fortunately, leading members of the Council decided to complete a draft of the basic law without waiting for the Occupation Statute. This draft was passed by the Main Committee of the Parliamentary Council in third reading on 10 February 1949 and considered by the Military Governors at a meeting in Frankfurt on 16 February.²

The draft of 10 February was then considered by the Committee of Political Advisers of the three Military Governors (on which the United States was represented by the Civil Administration Division of OMGUS, not USPOLAD), whose views were not unanimous. The U.S. member and even more his French colleague felt that the draft was still too centralistic in its assignment of legislative, administrative and fiscal powers. After considerable discussion among the Political Advisers and the Military Governors,

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1. Cable, D/A to CINCEUR, WARX 85438 of 11 March 1949 and undispatched draft of reply thereto, OMGUS AG Decimal File 010.1 Occupation Statute, KCRC. SECRET (downgraded from TS).
 2. Decision 420-421; the text of this draft is printed in Constitution 88-106.

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a memorandum suggesting changes in several articles was handed to a delegation of the Parliamentary Council on 2 March.¹

There ensued a period of detailed technical negotiation between representatives of the Parliamentary Council and of the Military Governments in which a series of proposals were passed back and forth. These conferences did not, in the end, produce significant modifications in the constitutional provisions drafted by the Germans. They did, however, have the unfortunate effect of causing many Germans to think that Military Government was forcing upon them an alien basic law. The question of constitutional language does not appear to have figured in communications between Washington and the theater at this time.

The Three-Power Foreign Ministers' Conference Breaks the Deadlock

The most important event during March 1949 was Gen Clay's secret visit to French Foreign Minister Schuman in Paris. Clay succeeded in convincing Schuman of the absolute need for three-power agreement on Germany, and they also agreed on the desirability of a brief and succinct Occupation Statute.²

The deadlock in achieving West German Government combined with Tri-zonal Fusion was broken at the conference of the U.S., British and French Foreign Ministers in Washington in early April 1949. One of the first

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1. Decision 422, Constitution 88, 108-113.
 2. Cable, CINCEUR to D/A from Clay personal for Voorhees, CC 8086 of 21 March 1949, CAD Numerical File, RG 122, DRB. SECRET (downgraded from TS). A paraphrase of most of this cable is reprinted in Decision 425-427.

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steps taken by the conference was to issue a letter dated 5 April to the President of the Parliamentary Council. This letter expressed gratification with progress so far on the Basic Law and requested that the Council "give due consideration to the recommendations of the Military Governors . . ." The Foreign Ministers hoped that the decisions of the Parliamentary Council would facilitate a mutually cooperative attitude between the future German Federal Government and the Occupying Powers.

The Washington Conference agreed upon an Occupation Statute which was very much shorter than all previous drafts and which granted "full legislative, executive and judicial powers" to the German Government except for a limited number of reserved fields. Even in these fields, the Federation and the Laender might legislate after notifying the occupation authorities, except when so directed by the latter or when the legislation would conflict with Allied actions. Amendments to the Basic Law would require express Allied approval, but other legislation including Land constitutions and amendments thereof would become effective twenty-one days after official receipt by the occupation authorities unless specifically disapproved by them. After twelve months and in any event within 18 months, the Statute would be reviewed "with a view to extending the jurisdiction of the German authorities in the legislative, executive and judicial fields."¹

At the same time, the conference approved a basic trizonal fusion agreement establishing an Allied High Commission to replace Military

1. Occupation Statute, released 8 April 1949, Story in Documents, 89-91, Constitution 116.

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Government. The Commission was to exercise the powers reserved to the occupation authorities under the Occupation Statute and would make its decisions:

(a) unanimously in the case of amendments to the Federal Constitution (Basic Law);

(b) by a system of weighted voting with strength proportionate to funds made available to Germany by the respective governments in cases involving control over foreign trade and exchange; and

(c) by majority vote in all other cases.

The agreement provided that an outvoted High Commissioner might appeal to his government, such an appeal having the effect of a suspensive veto. A permanent veto pending agreement between governments was, however, provided only for decisions altering or modifying inter-governmental agreements affecting disarmament and demilitarization, controls in regard to the Ruhr, restitution, reparations, decartelization and a limited number of related subjects.¹

The three Foreign Ministers also addressed a concluding letter to the Parliamentary Council, transmitting the Occupation Statute and pointing out that before it could be put into effect the Parliamentary Council would have to agree upon a basic law for the German Federal Republic. Simultaneously, the Department of the Army suggested to OMGUS that Berlin should not initially be included as a state of West Germany and that Military Government should deal sympathetically with German proposals on

1. Agreement on Basic Principles for Trizonal Fusion, Story in Documents 91-92, Decade 588-90.

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financial and legislative powers so long as these enabled the Federal Government and the Laender to function independently in their respective fields.¹

The Occupation Statute and the letter from the Foreign Ministers were transmitted to the Parliamentary Council on 19 April 1949.² At a meeting with a group from the Parliamentary Council on 14 April, the Military Governors approved the Council's recommendation to have that body rather than the Ministers-President establish the Federal Election Law. The German officials were also advised that the Military Governors had agreed on a definition of permissible federal police powers.

The remainder of April was taken up largely with a diversion instigated by the Social Democratic Party, which wanted the German Federal Government to have a strong financial and legislative powers so that it could nationalize heavy industry. On 9 April the SPD fraction in the Parliamentary Council issued its own abbreviated draft basic law, which was followed by two memoranda criticizing the Main Committee's draft as vesting too much power in the Laender.³

Another meeting of the Military Governors and the representatives of the Parliamentary Council could not be held prior to the SPD Congress

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1. Telegram, Frankfurt Military Post to OMGUS, from Kenneth Dayton to Gen Clay, FMPC 746 of 7 Apr 49 (quoting from Washington Teleconference), OMGUS AG Decimal File 010.1 Occupation Statute, KCRC. SECRET (downgraded from TS)
 2. Constitution 117.
 3. Constitution 118-34.

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scheduled for 20 April. There was a behind-the-scenes argument over an additional letter which the Foreign Ministers had sent to the Military Governors, authorizing them to deliver it to the Germans when they believed timely. This letter authorized financial measures designed to equalize relief burdens among the States (Finanzausgleich) a device quite normal under German practice but looked on with disfavor by OMGUS. It also included the provisions on Berlin and on financial and legislative powers which had been forwarded earlier as suggestions by teleconference.¹

Gen Clay did not want to deliver the letter before the SPD Conference, since Dr. Schumacher, the Chairman of that party, was certain to exploit it as a victory over the Allies. Gen Robertson, under instructions from London, urged immediate delivery, while Gen Koenig sided with Gen Clay. Clay describes the subsequent developments as follows:

"To my surprise, I received a cable from Washington instructing me to deliver the message. I reminded the Department of the Army that the timing was left to my discretion and that delivery was impossible until discussions had resumed in the Parliamentary Council. I predicted that it would lead Schumacher to conduct the SPD campaign in the first general election on an anti-Western occupying powers platform. My protest had no effect and I was advised that our Secretary of State had promised Mr. Bevin that the discretionary rights given to the military governors would apply for only a few days. Fortunately these few days included April 20. While Schumacher had received an overwhelming personal endorsement in the party congress held on that date, its representatives in the Parliamentary Council won the right to discuss and negotiate amendments to the Basic Law. Thus the two parties were again at work in the Parliamentary Council when we delivered the letter on April 23. Since the parties were negotiating again, neither could use the letter to support its position and it had lost much of its political significance."²

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1. Constitution 135; See also supra, material referenced by Note 1, p 70.
 2. Decision 432.

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The next meeting of the Military Governors with representatives of the Parliamentary Council, held 25 April 1949, was lengthy, since the draft basic law still granted greater powers to the German Federal Government than Gen Clay liked. Gen Robertson was ready to accept the German viewpoint; Gen Koenig, while not pleased with the German proposals, was willing to accept whatever the US would accept. This placed the issue of federalization directly in the hands of Gen Clay, who also realized that he would be held responsible if agreement could not be reached with the Germans. At one point the German delegation was ready to adjourn, but Gen Clay introduced a compromise tax proposal which was accepted. Shortly thereafter, agreement was reached on all outstanding points and Dr. Adenauer was able to announce that the Parliamentary Council could complete the basic law in the next few days.¹

The Parliamentary Council adopted the Basic Law of the German Federal Republic on 8 May 1949. Its formal approval was announced by the three Military Governors on 12 May at a final meeting with German representatives. At this meeting, Dr. Adenauer, President of the Parliamentary Council, was handed a letter of approval containing several reservations which had been insisted upon by the governments of the Occupying powers, and which, by virtue of the reserved powers in the Occupation Statute, constituted a part of German constitutional law.²

1. Decision 433-35.

2. Constitution 138-39.

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The Electoral Law

With the approval of the Basic Law of the German Federal Republic on 12 May 1949, the major tasks of US Military Government in Germany had been completed. What remained to be done were essentially tasks of liquidation incident to the establishment of the German Federal Republic and the transfer of occupation administration to the civilian High Commission.

Since the Parliamentary Council had presented its first draft of an electoral law for the Bundestag (lower house) of the Federal Parliament on 24 February 1949, which was rejected by the Military Governors, there had been continuous negotiations on this subject. The Military Governors also had several objections to the electoral law adopted by the Parliamentary Council on 10 May 1949. The most important of these issues were whether the Parliamentary Council (as desired by the Germans) or the Ministers-President (as desired by Military Government) should be responsible for establishing the institutions of the Republic and whether (as desired by Military Government) civil servants and judges elected to the Bundestag would have to resign their positions. An exchange of communications on 1 June 1949 narrowed but did not entirely eliminate the points of dispute and on 13 June 1949 the Military Governors settled the matter by invoking the supreme authority of the occupying powers. The Ministers-President were directed to promulgate the electoral law as amended by the Military Government letter of 1 June 1949, which they did at a meeting on 15 June 1949. Later a clarifying amendment concerning

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the tabulation of votes was recommended by the Ministers-President and approved by the Military Governors.¹

The provision prohibiting the civil servants from holding seats in the Bundestag was omitted from the German electoral law and was dealt with separately in Military Government Law No. 20, promulgated by the US, British and French Military Governors on 2 June 1949.²

The Paris CFM, Trizonal Fusion, and the Ruhr Authority

The twelfth of May 1949 was not only the day of approval of the Basic Law: it was also the day on which the Berlin Blockade ended. One of the provisions of the Jessup-Malik agreement that restored the status quo ante with respect to Berlin traffic was the calling of a Council of Foreign Ministers conference to meet in Paris on 23 May 1949. For this conference, the State Department requested that OMOUS prepare papers on conditions in the Soviet Zone, quadripartite supervision of elections, disarmament, foreign property interests in Germany, and Berlin currency. The State Department would itself prepare papers on the question of all-German government, peace-treaty procedure, possible reduction and regrouping of occupation troops, and other subjects. This meeting of the CFM, which lasted from 23 May to 20 June, did not lead to any agreement on

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1. Complete documentation on the electoral law is continued in Constitution, Part IX, pp 140-54.
 2. Election of certain public servants to the first Bundestag: Military Government Law No. 20 of 2 June 49, Story in Documents 316. It has been suggested that Military Government interferences in German electoral procedures was not really necessary to assure democracy, and that it jeopardized unnecessarily public acceptance of the new Federal Government.

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the unification of Eastern and Western Germany. It did, however, provide a useful occasion for the Foreign Ministers of the three Western Allies and their staffs to get together and settle a number of pending questions.

The Trizonal Fusion Agreement of 8 April 1949 was limited to a few basic principles. It provided that: "The representatives of the three occupying powers will make the necessary arrangements to establish tripartite control machinery for the Western zones of Germany which will become effective at the time of the establishment of provisional German government." Accordingly, the Committee on Allied Controls, a tripartite group in Berlin which had been established on 21 October 1948, was charged with developing the Charter of the Allied High Commission. The American representative on this Committee was Joseph Panuch, Special Adviser to Gen Clay. A representative of USPOLAD participated as an observer, and the Department of State was kept informed of proceedings by USPOLAD cables.

The Committee considered a draft introduced by the US member and in meetings on 4 and 6 May made rapid progress toward an agreed text. The only matter on which there was a substantial difference between the US-British position and that of the French was the insistence of the latter on establishing an "Administrative-Legislative Committee." The US and British members held that such a committee would absorb the functions of other committees and encroach upon the powers left to the German Government. Advice was requested from the State Department as to whether foreign missions should be accredited to the Allied High Commission or the

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German Government, the answer being that for the time being they should be accredited to the High Commission.¹

On 11 May 1949, however, the French member suddenly received instructions to withdraw from proceedings. It appeared later than Gen Koenig had not informed the Foreign Office of the activities of the committee, nor had the Quai d'Orsay received the American draft under discussion. The US and British members therefore met alone and agreed on a draft charter, which was forwarded to all three governments. On the following day the Foreign Office explained to a representative of the US Embassy in Paris that the temporary French withdrawal should not be misinterpreted, since it had been undertaken only to assure the Foreign Office necessary control over proceedings.²

After an unsuccessful attempt to bring the French back into the Committee on Allied Controls in Berlin, negotiations were moved to Paris on 2 June and carried through to completion by the respective CFM delegations. The US delegation included Riddleberger and Gufler of USPOLAD, who had been in close touch with the Berlin discussions. The Paris

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1. State Dept cables, USPOLAD to Sec of State, 7 May 49, and Sec of State to USPOLAD, 11 May 49, OMGUS Civil Administration Division File, "Charter of the High Commission," KCRC. SECRET
 2. State Dept Dispatch from USPOLAD to Dept, Subject: Draft Charter of Allied High Commission for Germany (with informal minutes of meetings of Committee on Allied Controls on 4, 6 and 11 May 49), Berlin, 18 May 49; State Dept Cable, Paris to Berlin, 12 May 49; OMGUS Civil Administration Division File, "Charter of the High Commission," KCRC. SECRET

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negotiations resulted in the Charter of the Allied High Commission, which was agreed on 14 June and published on 20 June 1949.¹

Another subject that came up during the meeting of the Council of Foreign Ministers was the International Authority for the Ruhr. At the first meeting of the Authority, the French had gained the impression that the British and United States elements had a more restrictive concept of the powers, functions and organization of the Authority than did the French. On 16 June Minister Schuman handed Secretary Acheson a memorandum to that effect, which also suggested that organization of the Military Security Board might proceed more rapidly.

A reply was given to the French that the United States considered the IAR as an important instrument in attaining international objectives, but that it was not desired to take over staff nor to duplicate the functions of other Allied Control agencies. OMGUS was advised to take necessary action, in concert with British and French Military Government, to put the Military Security Board on a fully functioning basis as rapidly as possible.²

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1. The OMGUS Civil Administration Division File "Charter of the High Commission" contains a large number of cables exchanged between Paris and Washington during these negotiations, with numerous detailed comments and suggestions by the State Department. Since these do not constitute guidance to Military Government, they are not reviewed here. The Charter itself is reprinted in Story in Documents 92-97.
 2. Cable, D/A to OMGUS, WARX 91772 of 20 July 49, CAD Numerical File, RG 122, DRB. SECRET

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Arrangements for Transfer of Occupation Administration to the State Department

As it became apparent during April 1949 that West German Government would finally become a reality and that the Soviet Union was ready to end the Berlin Blockade, the plan to transfer occupational responsibility in Germany from the Army to the Department of State was taken out of mothballs. It was agreed that the Army would continue the same logistic support hitherto enjoyed by Military Government, that existing staff in Germany would be transferred to the Department of State to the extent desired by State and the employees themselves, and that uniformed personnel would be detailed as necessary during the transitional period. Although an agreed plan for the transfer had existed since April 1948, it was necessary to do considerable re-planning both in Washington and in the Theater.¹

The formal proposal to initiate planning for the transfer was made in a letter of 18 May 1949 from Secretary of State Acheson to Secretary of Defense Johnson, an identical letter being sent to the Economic Cooperation Administrator. This letter proposed that the transfer, the date of which was left open, be made by means of an Executive Order establishing and defining the functions of the US High Commissioner for Germany. The High Commissioner would also be the ECA representative in Germany, assisted by a Chief of Special Mission appointed by the ECA

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1. Ltr, Gen Clay to Sec of the Army transmitting plan for transfer of Military Government functions to the US High Commissioner for Germany, 13 Apr 48, OMGUS Civil Administration Division File "Charter of the High Commission," KCRC. SECRET. Cable, D/A to CINCEUR, from Voorhees, WAR 87646 of 25 Apr 49, CAD Numerical File, RG 122, DRB. RESTRICTED

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Administrator. Secretary Acheson proposed that a State-Army-ECA Ad Hoc Committee be established to implement the transfer.¹

On 23 May 1949 Undersecretary of the Army Voorhees accepted the proposal on behalf of the Secretary of Defense and designated the Army members of the Ad Hoc Committee. After a further exchange of letters, agreement was reached on the text of an Executive Order which was approved by President Truman on 6 June 1949.²

The substantive provisions of Executive Order 10062, establishing the position of United States High Commissioner for Germany, were as follows:

"1. There is hereby established the position of United States High Commissioner for Germany, which position shall be that of Chief of Mission, Class 1, in accordance with the provisions of the said Foreign Service Act of 1946.

"2. The United States High Commissioner for Germany, hereinafter referred to as the High Commissioner, shall be the supreme United States authority in Germany. The High Commissioner shall have the authority, under the immediate supervision of the Secretary of State (subject, however, to consultation with and ultimate direction by the President), to exercise all of the governmental functions of the United States in Germany (other than the command of troops), including representation of the United States on the Allied High Commission for Germany when established, and the exercise of appropriate functions of a Chief of Mission within the meaning of the Foreign Service Act of 1946.

"3. With respect to military matters the Commander of the United States Armed Forces in Germany shall continue to receive instructions

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1. Ltr, Sec of State to Sec of Defense, 18 May 49, AGAO-S 092 Germany, DRB. CONFIDENTIAL
 2. The entire correspondence file is attached to a memorandum "Assumption of Responsibility for Non-Military Aspects of the Occupation of Germany by the Department of State and the Economic Cooperation Administration" TAGO, 11 Oct 49, AGAO-S 092 Germany, DRB. CONFIDENTIAL

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directly from the Joint Chiefs of Staff, On request of the High Commissioner, such Commander shall take necessary measures for the maintenance of law and order and such other action as is required to support the policy of the United States in Germany. If major differences arise over policy affecting military matters, necessary reports and recommendations shall be referred to the Department of State and to the National Military Establishment for resolution. In the event of an emergency involving the security of the United States forces in Europe, such Commander may take whatever action he considers essential to safeguard the security of his troops.

"4. In the event that the High Commissioner shall assume his duties in accordance with this Executive Order prior to the date that the Military Government of the United States Zone of Germany is terminated, he shall during such interval report to the Secretary of Defense, through the Secretary of the Army, and shall be the United States Military Governor with all the powers thereof including those vested in the United States Military Governor under all international agreements."

Detailed planning in the theater for the transfer was begun by top officials of OMGUS and USPOLAD, the latter being joined late in May by Glenn G. Wolfe, who had been designated as Administrative Officer of HICOG and who had already managed a similar transfer from the Army to State in Korea.²

On 11 July 1949, the functions of Acting Military Governor were transferred from the Commander-in-Chief of EUCOM to McGloy, who had arrived in the theater and taken up his duties as High Commissioner.

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1. Joint Army and Air Force Bulletin No. 15, 17 Jun 49, Section I.
 2. State Dept cable from Sec of State to Berlin, 19 May 49, OMGUS Civil Administration Division File "Charter of the High Commission." KCRC. CONFIDENTIAL The volume of detailed planning is suggested by a list of "subjects for decision between the High Commissioner and Commander-in-Chief, European Command," issued by the Logistics Division of EUCOM on 1 May 49 listing 135 topics and sub-topics, ranging from dependents schools to mortuary service, arranged under 10 major heads (same file as foregoing).

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On 18 July 1949, the Joint Chiefs of Staff issued a new directive to the Commander-in-Chief, defining the new and limited mission of the United States Army in Germany.¹

By agreement between the State and Army Departments reached early in August 1949, the Department of State took over responsibility for preparation and defense of the German portion of the GARIOA budget. OMGUS was placed in liquidation status on 15 August 1949 with the promise that the liquidation would be completed within 90 days.²

Final Policy Questions -- Patent Office and ERP Mission

As Military Governor ad interim pending the formal transfer of occupation administration to the Department of State, McCloy continued to report to the Secretary of Defense through the Secretary of the Army. Throughout the summer of 1949, therefore, instructions on military government matters were still sent through Army channels. After the Office of the Assistant Secretary of the Army had assumed the functions of the deactivated Civil Affairs Division on 15 July 1949, only two policy matters arose that merit brief mention.

The first of these was the reestablishment of the German Patent Office on a bizonal basis, which had been held up, first because of a

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1. Memorandum from JCS to Commander-in-Chief, EUCOM, 18 Jul 49, AGAO-S 092 Germany (filed attached to TAGO memorandum of 11 Oct 49), DRB. CONFIDENTIAL
 2. Ltr, Acting Deputy Undersecretary of State to Asst Sec of the Army, 5 Aug 49, and ltr, Deputy to Undersecretary of the Army to Acting Deputy Undersecretary of State, 22 Aug 49, AGAO-S 092 Germany (filed attached to TAGO memorandum of 11 Oct 49), DRB.

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British technical reservation and later because the French indicated that the proposed Patent Office might be a security risk. After Secretary of State Acheson had discussed the matter with French officials in Paris, the US Delegation reported its opinion that the Patent Office operating under the regulations proposed by the Germans involved no security aspects. After reading this report, OMGUS cabled on 22 July 1949 to the Department of the Army as follows:

"The French have been fully heard and it is perfectly obvious that they have no motive except to drag the German Patent System which always was very efficient, down to the level of the French system, which is so poor as to afford no worthwhile protection to inventors. We urge that you impress upon State urgency of the situation, futility of further consideration and advise them to inform French that we have considered their objections and cannot continue to retard German economic recovery by failure to reopen the Patent Office. If British reluctant to join in this course, recommend we be authorized to establish Patent Office for US Zone."¹

On 29 July 1949 the Department of the Army authorized OMGUS to approve the bizonal ordinance establishing the Patent Office, if the British were ready to agree, but not to set up a separate Patent Office for the US Zone. A further delay was caused when the State Department accepted a French request for a tripartite conference on German patents and the matter was still pending when OMGUS passed over its responsibilities to HICOG.²

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1. Cables, D/A to OMGUS, WARK-83775 of 5 Feb; OMGUS to D/A, CC-8956 of 22 Jul and CC-9212 of 24 Jul 49; CAD Numerical File, RG-122, DRB. WARK-83775 SECRET, CC-8956 SECRET, CC-9212 CONFIDENTIAL
 2. Cables, D/A to OMGUS, WARK-92178 of 29 Jul 49, CONFIDENTIAL, and WARK-92880 of 15 Aug 49, RESTRICTED, CAD Numerical File, RG-122, DRB. Decision 223.

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Arrangements were also made during August 1949 for German officials to take over the operation of the ERP Mission in Washington. It was agreed between the Departments of State and Army and the ECA that the Allied officials attached to the Mission would remain in a supervisory capacity until the establishment of the West German government. Thereafter, they would remain temporarily as advisers but would phase out as soon as the Germans were able to handle liaison with the ECA alone.¹

West German Government Becomes Operative and Military Government Terminates

The German election of deputies to the first Bundestag was held on 14 August. The last major reporting task undertaken by OMGUS was a detailed analysis of the results, which was teletyped to the Department of the Army.²

The German Parliament, consisting of the popularly elected Bundestag and the Upper House or Bundesrat designated by the Land Assemblies, convened in Bonn on 7 September 1949. On 12 September the two Houses convened jointly as the Federal Convention as provided in the Basic Law, and elected Professor Theodor Heuss as President of the Federal Republic of Germany. Dr. Konrad Adenauer was elected Federal Chancellor by the Bundestag on 15 September, and his cabinet was approved by that body five

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1. Cables, D/A to BIGO, WCL 31419 of 2 Aug, SECRET; D/A to OMGUS, WCL 34226 of 12 Aug and D/A to OMGUS, WK-92773 of 15 Aug 49, FMP Cable and Telecon File, KCRC.
 2. Teleconference Frankfurt TT 2543 of 15 Aug 49, Frankfurt Cable and Telecon File, KCRC. CONFIDENTIAL

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days later. On 21 September 1949 the three High Commissioners held a formal ceremony at which they announced the termination of Military Government and the coming into force of the Occupation Statute. The same day the Department of State issued an announcement that as of 21 September 1949 the Military Government of the United States Zone of Germany (OMGUS) was terminated and the United States High Commissioner for Germany (HICOG), under the immediate direction of the Secretary of State, was authorized to exercise all of the governmental functions of the United States in Germany except the command of troops.¹

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1. Termination of Military Government and Proclamation of Occupation Statute, Statements by Chancellor Adenauer and by Andre Francois-Poncet, French High Commissioner, and Declaration placing Occupation Statute in force, Story in Documents 321-23; Announcement on Termination of OMGUS and USPOLAD, ibid. 186; Constitution p XVI.

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Chapter 11

FINDINGS AND RECOMMENDATIONS

INTRODUCTORY

Although the findings that follow are restricted to those that appear to have the greatest applicability to future US occupation situations, it should be kept in mind that they derive only from an examination of US WW II experience in providing policy guidance for CA/MG operations in Germany.

What held true for occupied Germany in 1945-1949, however, may or may not necessarily hold true for another time or another place. Also, what held true for the topics principally investigated in this study may not without modification hold true for other topics. The procedural and administrative lessons to be drawn from the experience with economic controls, denazification, and the restoration of civil government for example may differ from those to be drawn from the experience with transport, information control, propaganda, or external restitution. Finally, the findings and recommendations do not discuss in great detail the substantive issues of military government. Critical substantive comment, made in the course of the analytical narrative, therefore will not be repeated in this chapter except to clarify the point of view from which the main findings and recommendations on procedures and administration are made.

Each finding is accompanied by explanatory or illustrative comment. Recommendations appear at the end of the chapter.

FINDINGS

Finding 1: During the period of hostilities and the early part of the occupation of Germany most officials in the United States Government who

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could have made decisions or decisive recommendations did not well understand the character of the problems posed for the United States by the defeat and occupation of Germany.

Until World War II (and, to some extent, until the present day), Americans have tended to belittle the importance of military problems until international political conflicts have erupted into combat. Hostilities begun, the tendency has been to focus the national energies on the prosecution of the war, to the comparative neglect of the objectives toward which the combat is supposed to be a means. In World War II the main consequences of this "athletic" attitude did not emerge until a late stage of combat, for in the early days the enemy had the initiative and our military response was more immediately dictated by the tactical situation. One striking consequence of this attitude when it was manifested was the doctrine of unconditional surrender, which is now regarded by many observers as a political and military blunder.

Military government planning suffered from the general neglect of post-hostilities problems during the fighting. President Roosevelt discouraged the development of postwar policy, partly for fear of jeopardizing relations with the Soviet Union by attempting to reach political and territorial settlements and partly in order to avoid disputes between ethnic groups in the United States. (More personal factors, such as a talent for improvisation and a disinclination for systematic thinking, may have played their part: the President stated as late as 20 October 1944, with respect to planning for the political and economic postwar treatment of Germany, "I dislike making detailed plans for a country which we do not occupy.") Even as late as the summer of 1945, the State Department appeared unwilling to accept the responsibility for the formation of policy on urgent questions of coal production and distribution and the restoration of transport facilities in Germany.

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Finding 2: Many responsible civilian and military officials wrongly applied to occupation issues a supposed distinction between political and military policy which for some time inhibited planning.

The American military has had a long tradition of abstaining from intervention in domestic political issues. Civilian leaders and the public have agreed with this tradition. Such abstention does not, however, suffice as a guide to military conduct under modern conditions of warfare and international relations. The decision not to take Berlin, and the decision not to move to Prague, may have been due to a false dichotomy between political and military policy.^{1/} Similarly, for a time during the period of hostilities many military men thought of CA/MG, if at all, as an ancillary service of which the whole duty was to see to the prevention of disease and unrest. This limited view was repudiated by some even before the close of hostilities, and by most when it became gradually apparent that there would be a long period of military occupation. More fundamentally, both military and civilians tended at first to ignore the fact that military government operations presuppose, reflect, and in their turn help to create political (i.e., foreign) policy.

Finding 3: Although policy-making officials had at their disposal generally adequate staff studies on particular occupation problems, organiza-

1/ Gen Omar Bradley, A Soldier's Story, New York, 1951, p. 535; Forrest C. Pogue, "Why the Russians Got Berlin and Prague," Journal of Modern History, Vol. XXIII, No. 4, December 1951, quoting Gen Eisenhower's message of 7 April 45 to CCS, mimeographed reprint: ". . . But I regard it as militarily unsound at this stage of the proceedings to make Berlin a major objective, particularly in view of the fact that it is only 35 miles from the Russian lines. I am the first to admit that a war is waged in pursuance of political aims, and if the Combined Chiefs of Staff should decide that the Allied effort to take Berlin outweighs purely military considerations in this Theater, I would cheerfully readjust my plans and my thinking so as to carry out such an operation."

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tional lines did not at first clearly establish the authority and responsibility for decision.

Although the main difficulties in developing United States occupation policy with respect to Germany stemmed largely from the lack of advance planning and failure to think through long-range policies, the development of specific policies during the early planning period was also hampered by organisational complexity and confusion on the civilian side. Authority for the development of policy was distributed among a number of governmental agencies, with no clear central coordinating mechanism.

As early as November 1942 President Roosevelt gave the Secretary of State full authority over all economic, political, and fiscal questions which might develop in "liberated territories," and this grant might without much difficulty have extended to occupied enemy territory. State did produce a substantial number of staff studies on the postwar treatment of Germany, but they were to a great extent buried by indifference or neglect at higher levels and by hostility on the part of other agencies. The Treasury Department, the Department of Justice, and the Foreign Economic Administration (succeeding the Board of Economic Warfare and the Office of Economic Warfare) competed with State for a share, and sometimes for the dominant influence, in the making of occupation policy. The War Department, seeking guidance for operational planning, could find no agreed source of policy.

Finding 4: The vacuum of policy on the occupation of Germany, created largely by the refusal of the President to make firm decisions and the failure of the Department of State to exercise leadership, was filled by short-term policies on which individuals and groups in other government agencies exerted an influence greater than was justified by their proper role.

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In 1944 and 1945 an active, dedicated group of officials, located principally in the Foreign Economic Administration and the Treasury but also scattered elsewhere, exerted an influence on United States policy toward Germany out of proportion to their numbers and rank. Their influence worked in the direction of a harsh and repressive policy which recognized some but ignored others of the most important facts about the organization of the European economy, the strategic situation between the West and the Soviet Union, and the condition of the German government and people. No conclusion is drawn here on the motives or affiliations of the persons who composed this center of policy interest.

If the officials who ultimately must answer to the public had had the organizational means, the time, and the doctrine to enable them to recognize this center of policy interest, the policies advocated by it would have been at least adequately ventilated and appraised. They were not. As one result, the Morgenthau Plan was (in effect) approved by Roosevelt and Churchill at the Quebec Conference of September 1944, although principal officials of State and War had disapproved its content and although the President might well have disapproved of its implications had they been properly presented. As a second result, the attitude toward Germany reflected by the center of policy interest that had worked up the Morgenthau Plan prevailed in the preparation and negotiation of JCS 1067, the interim post-surrender directive, which owed much of its tone and emphasis (though by no means all of its specific provisions) to the momentum that Quebec had given to the Morgenthau Plan.

Finding 5: Once an interim policy was announced, operational planners in the War Department and especially in the theater, lacking a guide to

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long-range policy, were forced either to drift with the tide of events, to make independent assumptions on long-range objectives, or to defer to the interim policy as if it correctly reflected long-range objectives. They usually chose the last course.

One corollary of the distinction between military decisions and political decisions, applied to CA/MJ, was that when the political authorities had made policy it became the duty of the military to execute and even defend it. That principle does not work properly unless the political authorities discharge their responsibility, unless the military knows where to turn for guidance, and unless the military is aware of the policy consequences of its own operations. When political leadership abdicated its policy function, the Army, both in Washington and in the theater, naturally clung to whatever straws of policy were available. Thus, without regard to their merits, JCS 1067 and JCS 1067/6 acquired a purely existential value as (in the phrase of Gen Bedell Smith) "a workable policy for Germany."

Finding 6: The initial policy settled on for the occupation of Germany soon proved inadequate because it covered only short-term objectives, was developed from a combination of military requirements, and was based almost solely on a ^{primitive} philosophy. The initial policy also proved unsatisfactory in content for a number of reasons. Among them:

(a) It placed the responsibility for recovery and maintenance of the German economy on the Germans themselves but forbade the establishment of a central government organization to regulate the economy and assist its recovery.

(b) It failed to give due weight to the problems of European economic

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recovery and the role that Germany would have to play as an essential component in the European economic system.

(c) Its repressive features tended to create dissatisfaction and unrest among the Germans that could have endangered the occupying forces.

(d) It failed to command the respect and concurrence of many of the Americans in the field charged with the duty of carrying it out.

Most of the factors that perplexed United States policy on Germany in 1945 and 1946 could have been predicted, and many had been. The inadequacy of JCS 1067 and JCS 1067/6 came as no surprise to the working-level staff planners in State and War whose recommendations had lost out in late 1944 and early 1945.

Finding 7: The interim policy delayed for some time the necessary formulation of long-range policies to serve objectives with which it was inconsistent.

The relationship between interim and long-term post-hostilities policies was blurred. Available records contain no approved statement dating from the pre-surrender period and expressing long-term United States policy for Germany. Although the September 1944 version of JCS 1067 explicitly declines "to prejudice whatever ultimate policies may later be determined upon,"^{2/} its provisions contained strong suggestions for long-range policy. Planning of a general directive for Germany to be used as a basis for negotiation in the European Advisory Commission, for instance, was inhibited by the assertion that nothing could be proposed that was inconsistent with JCS 1067 because

^{2/} "Directive to SCARF Regarding Military Government in Germany Immediately Following Cessation of Organized Resistance (Post-Defeat)," Enclosure "C" to JCS 1067, approved by Joint Chiefs of Staff 24 Sept 44, ASW Decimal File 370.8 Germany (Working File), DRB. RESTRICTED (Downgraded from TS).

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JCS 1067 had implemented an inferred (but unstated) permanent policy.

Finding 8: During 1946 and 1947 many features of the initial occupation policy were modified or abandoned for strategic, economic, humanitarian or other reasons; and the essentials of a long-range policy were developed.

In the areas covered by this study most of the basic presuppositions of the initial occupation policy were revised or repudiated within two years of the end of hostilities. Among these were the principle that German civilian industry should be severely curtailed because it was essential to the German war-making ability; the principle that the United States should assume no responsibility for assisting economic recovery in Germany; the principle that it would be practicable and salutary to treat the whole German people as culpable; the principle that all Nazis should be permanently barred from prominent public office; and the principle that the United States had little or no interest in the re-establishment of German central governmental institutions.

There were several reasons for the change. With the realization that the occupation would last some time came a feeling of responsibility for the welfare of millions of Germans who, though ex-enemies, depended largely on American resources. The American people, partly led and partly followed by their executive and legislative representatives, began to adjust their thinking to the role that the United States had to play in restoring economic activity and social order in Europe, and to the importance of Germany in fulfilling that task. The financial burden borne by the United States taxpayer for German relief and rehabilitation increased the desire of the Congress to stimulate German recovery, curtail reparations removals and dismantling, and promote the establishment of effective indigenous adminis-

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tration. As the United States outgrew its illusion of the identity of interest between the Soviet Union and the free world, American policy-makers directed particular attention to Germany, a border area where the two systems were in conflict and on trial. Finally, the day-to-day operations of military government in the field built up a growing awareness of, and dissatisfaction with, the unworkable aspects of the interim policy.

In many respects the long-range policies hammered out in 1946 and 1947 by Secretary Byrnes, General Clay, and others in Washington and the field vindicated the wartime planning of the working staffs in State and War.

Finding 9: The Office of Military Government for Germany (US) (OMGUS) played an increasingly important part in suggesting basic policies and developing detailed sub-policies. In some areas of policy, especially in the establishment of German governmental institutions, OMGUS made most of the basic policies in the absence of guidance from Washington.

General Clay and OMGUS became aware rapidly of the political function of military government; of the inadequacy of purely military formulae, like the prevention of disease and unrest, to cope with the economic and other problems that demanded solution; of the defects of the interim policy. The history of the occupation shows a growing self-consciousness on the part of the military in Washington and the theater, a growing willingness to contribute to the formation of basic policy, and a growing acceptance of the duty of making policy when guidance from the civilians was late or absent. The shifts in occupation policies during the course of military government in Germany represented at the same time a consolidation of civilian and military policy.

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Finding 10: The degree of detail spelled out in policies formulated in Washington varied. The interim policy developed in Washington in 1945 did not allow adequate freedom of action on details to the military governor. As time went on, the military governor and his staff acquired numbers, prestige, expertness, and trust. To a considerable extent the War/Army Department came to leave details to the theater, particularly as channels of communication between Washington and the theater improved, but throughout the occupation Washington occasionally intervened in topics of special interest to Congress, the public, or our allies.

An outstanding example of over-detailed instructions in CA/MG was JCS 1067, based on detailed intelligence estimates that were later corrected and on a policy that was later virtually repudiated. Other examples in the area covered by the study were those of reparations, level-of-industry, and some of the negotiations leading to a fusion of the three western zones. Reparations and level-of-industry lent themselves to the compilation, at a distance, of precise lists and targets; more important, they were at different times of great moment to our allies and to Congress; political and diplomatic pressure was put on Washington to enter into detail. A minor illustration was the obligatory purchase of 280,000 tons of American seed potatoes with COMUS funds, to ensure Congressional support.

In a number of cases, policies were developed in the theater with little or no guidance from Washington. In general COMUS was allowed more latitude in governmental than in economic or financial matters. For instance, the theater denazification directive and the transfer of denazification operations to the Germans in 1945 were developed in the theater, as was the Youth

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Amnesty of 1946. When the Germans were developing constitutions for the Länder in 1946, the State Department began to insist on detailed changes but deferred to OMGUS, which wished to keep military government interference to a minimum. The plans for bizonal organization were apparently developed in the theater. In some cases, such as currency reform policy in 1946 and theater-level negotiations on an Occupation Statute in 1949, OMGUS had difficulty in obtaining guidance sufficiently firm and yet sufficiently general.

Toward the end of the period of occupation, General Clay was involved in continual negotiations with the Western Allies and the Germans. Washington came to have something like an articulate philosophy, not always followed, of allowing him latitude in his negotiations. In a late stage of the currency reform negotiations, for example, Under Secretary of the Army Draper (who had been a division chief in OMGUS) reassured General Clay "that within the general principles and policies given you by your government, the detailed decisions based on tripartite negotiation were within your province." Again, in September 1948 during the siege of Berlin, Secretary of the Army Royall cabled General Clay that "it is not my intention nor that of the State Department to restrict or hamper you in your negotiations. However, we will be glad to give you our opinions on any matters about which you wish to consult us, and to assume or share the responsibility of any important decisions which you have to make." General Clay more than once reminded Washington of the distinction between giving him an order and making a suggestion to him.

Finding 11: The communication of policy suggestions, established policies, reports, and criticism between OMGUS and the War/Army Department

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was fair at the beginning of the occupation but improved substantially in the course of time despite occasional recurring breakdowns. Correspondence and cables were supplemented by various kinds of personal contact, of which perhaps the most important was the participation of OMGUS representatives in international conferences outside Germany as advisers to United States negotiators on German matters.

Even after stable organizations had been developed in Washington and the theater, no clear pattern was discernible for the taking of initiative in the formation of military government policy in the areas studied. This was not necessarily a defect. While it could and may have led to duplication of effort, the main difficulty was not overlap but gaps. Where communication was ample and early enough in relation to the need for it, the locus of initiative does not appear to have mattered, if someone exercised it in time. (Factors of pride, vanity, and credit would of course have to be considered; the study was largely confined to documents and did not devote to such factors the attention that could have been paid if the administrative process had been investigated by interview techniques.)

A not untypical example of adequate communication was the development of policy on German central agencies in mid-1946. Preparing for the second part of the Paris CFM, the War Department on 23 May asked OMGUS through USFET to contribute its views on German central agencies (among other agencies) for incorporation in papers to be submitted in SWNCC. On 26 May the views of OMGUS were cabled by General Clay; special reports were sent by air courier to Washington, supplementing the cable. On 11 June OMGUS cabled Washington suggesting close liaison between Washington and Berlin on planning related to German governmental structure; the State Department (Assistant Secretary Hildring), advised by CAD, replied sending two State Department research

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papers which apparently were transmitted to OMGUS. On 13 June CAD notified General Clay that the Secretary of State had accepted a large part of his 26 May recommendations as the official view of the Government for presentation to the CFM, and on 29 June the War Department cabled general governmental approval of the OMGUS plan for central German agencies.

On the other hand, communication broke down on occasion at one or more of several points.

(a) To take an early example, General Clay before leaving Washington to become Deputy Military Governor was so inadequately briefed that he knew nothing of JCS 1067 (then in preparation); he knew nothing of the tripartite policies on Germany agreed on by the Soviet Union, the UK, and the US; and he was not even advised to talk to anyone at the State Department.

(b) Again, the government occasionally was embarrassed by the coexistence of incompatible drafts of an important policy document, as with the versions of JCS 1067 used by USGGC in early 1945, the two texts of the German surrender document before the European Advisory Commission, and the divergent drafts of the Occupation Statute in 1949.

(c) General Clay with partial justice complained that his negotiating authority was being continually undermined by State, e.g., at one stage of the negotiations on prohibited and restricted industries; at one stage of the negotiations on trizonal fusion; and on the occasion of a dispute over the timing of the delivery of a conciliatory letter to the Germans working up the Basic Law in their Parliamentary Council.

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Reference has been made earlier to various devices for communicating policy between Washington and the theater. Day-to-day correspondence and cables made up the largest volume of matter studied, but several other devices were of great importance.

The loss of time consumed in travel and absence from Berlin was more than offset, apparently, by the results obtained by some of the trips made to Washington by OMGUS leaders to consult: e.g., Clay in November 1945 on food allotments, internationalization of the Ruhr and Rhineland, central German agencies, and reparations; Clay in November 1946 on bizonal unification, revision of the JCS 1067 series, and socialization of industry; Draper in January 1947 on the food, fertilizer, transportation and petroleum budget.

A most important channel for the communication of policy and suggestions and for the ventilation of grievances accumulated in day-to-day work seems to have been developed almost incidentally: the attendance of OMGUS personnel at various international conferences where they had an opportunity to work with War Department and especially with State Department officials. A partial list will indicate the range of topics covered:

(a) General Clay and Ambassador Murphy attended the first part of the meeting of the Council of Foreign Ministers (CFM) in Paris in May 1946; Clay had an opportunity to explain to Secretary of State Byrnes and Senators Connally and Vandenberg the economic consequences resulting from the severance

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of Germany into four independently operated areas. An indirect sequel to General Clay's talks with Secretary Byrnes in May and July 1946 at Paris was the Secretary's visit to General Clay in Berlin before the Secretary's Stuttgart speech in September 1946, a speech that owed much to a draft summary of policy previously prepared by General Clay and his staff and marked the new direction for United States policy on Germany.

(b) General Clay and some of his staff represented the War Department in Washington (November 1946 and October 1947) in the negotiations with the United Kingdom on import-export levels and financing.

(c) The Moscow CFM in March 1947 brought together a considerable number of OMGUS experts and State Department experts on Germany, affording at least a temporary opportunity for an unprecedented degree of coordination, which had for American occupation policy a more lasting importance than merely the preparation of the US position in the Conference. It was at Moscow that US policies on the German economy and the German governmental structure were developed in the light of the split-off of the Eastern Zone, the reaction to Soviet aggression in Europe, and the forthcoming fusion of the western zones.

(d) The London CFM in November 1947, attended by OMGUS experts on German government, established the controlling influence of OMGUS on governmental matters.

(e) At the London Six-Power Conference on Germany in February-March 1948 General Clay and his advisers assisted in the formation of US policy on a wide

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range of subjects, including reparations deliveries; the relationship of Western Germany to the European Recovery Program; control of the Ruhr; the evolution of the political and economic organization of the three western zones; and the association of Belgium, the Netherlands, and Luxembourg in German policy.

(f) In preparation for the CFM in Paris in May-June 1949, just after the Berlin Blockade ended, OMGUS drew up papers for the Department of State on conditions in the Soviet Zone, quadripartite supervision of elections, disarmament, foreign property interests in Germany, and Berlin currency.

Perhaps the international conferences enabled officials from both Washington and the theater to escape temporarily from some of the restrictions imposed by their files, their telephones, and the other necessary paraphernalia of their work, to devote time and concentration to endeavoring to understand their colleagues' viewpoints and clarifying their own.

Finding 12: Fact-finding missions to the theater helped to improve presidential, congressional, and public understanding of military government problems, particularly on questions of food and agriculture.

Even apart from staffs and sub-committees of Congressional committees, the theater was visited by investigators sent from Washington with special missions. Several of these missions performed a useful function in relaying to Washington, with new approaches or new stress, problems of whose magnitude the theater had not succeeded in persuading Washington through the

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ordinary channels. This appears to have been the case with the Byron Price visit in 1945, which covered a broad field and resulted in recommendations for (among other things) the revision of JCS 1067/6; the Calvin Hoover report on economic conditions; the visits of former President Hoover in 1946 and 1947, and his reports on the food shortage; the Colm-Dodge-Goldsmith report in 1946 on financial rehabilitation; and the visit of Secretary of Agriculture Anderson in 1947, on food requirements.

Finding 13: After OMCUS became fully organized, representatives of departments other than War/Army and State seldom intervened directly in theater operations. The relationship of the State Department's representatives in the theater to the policy-making process was never fully resolved during the period of military government, however, despite the fact that the personal qualities of officials on both sides held down the difficulties inherent in the situation.

A special difficulty, never fully resolved, was presented by the liaison in the theater between OMCUS and USPOLAD, the State Department's representative. General Clay's theory was that his instructions should come from his command superiors in the War Department, and that the views of the State Department if presented as instructions must be cleared by State in SWNCC or (if SWNCC could not agree) at the White House before being transmitted from SWNCC to JCS, from JCS to CAD, and from CAD to OMCUS. Under that theory the Political Adviser in Berlin could serve only as a transmitter of suggestions and a

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watchdog for State. In practice the collaboration between General Clay and Ambassador Murphy worked well, with sporadic eruptions. To the extent that USPOLAD sought to equip itself to give advice on questions of German politics and German governmental structure, General Clay tended to lean rather on his experts in OMGUS; and this strain increased as the German government became more and more nearly autonomous, for the Political Adviser naturally sought to mold his office and his function more and more in the traditional ambassadorial forms.

RECOMMENDATIONS

1. In planning for the policies to be followed in the military occupation of foreign territory by United States forces it should be recognized that military government policies not be regarded as military policies alone. Political, social, and economic aspects of policy interact with military aspects and with one another. Policies applied by the military should be connected and consistent with US foreign policy.

2. As soon as some form of military occupation is envisaged, the US government should develop clear and consistent (not necessarily detailed) long-range policies for the guidance of the officials who will have the responsibility of administering or supervising the occupation. The army can play an important role in this regard by seeking answers beforehand to those questions with which it will eventually be faced in the conduct of the occupation.

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The stage at which long-range policies will be needed may not be reached before the outbreak of hostilities, but it would be imprudent to rely upon a leeway of months or years in which such policies can be evolved at leisure, for the course of battle may move too swiftly. Among the questions on which it would be well to develop policy -- or to take consciously the risks of deciding not to have a policy -- are the following:

(a) Are the inhabitants of the occupied area to be treated as enemies, as allies of the United States, as wards of the United States Treasury, as neutrals, or in some other way?

(b) (If the United States is a member of a victorious coalition) Is the administration of the occupied area to be shared with representatives of our allies? If so, are there to be zones of occupation as in Germany and Austria, or a unitary occupation with an inter-allied superintending or advisory body as in Japan, or an occupation as trustee for an international or supranational organization like the United Nations as in parts of the Pacific?

(c) Shall the inhabitants of the occupied area be permitted to administer their own affairs? If so, may they continue the form of government that obtained prior to the occupation or must they set up a different form of government; and, if the latter, under what restrictions imposed by military government? Is it desirable that there be a period of transition in which governmental power resides nowhere but in military government?

(d) Shall military government take responsibility for the maintenance of social peace; for the restoration, the new establishment, or the prescription of a particular social order; or merely for the establishment of military security for the occupying troops? If at the time of occupation a violent social-political revolution is in progress (assisted, possibly, by our propaganda), shall military government attempt to freeze the status quo, attempt to let things run their course, or intervene -- and, if so, on what side?

(e) Shall military government impose economic controls (ceilings on production, ceilings on capacity, export quotas, rationing, allocation priorities, etc.) for security reasons or welfare reasons, or should the occupied area be left to its own devices? Is a period of economic misery

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to be encouraged as a lesson to the defeated population? Is the United States taxpayer to be asked to supply the deficiency between local resources and a minimum standard of living? How shall the occupied area rank in competition with our allies as a claimant for scarce commodities and machinery? Should certain kinds of production be pushed in the occupied area for the sake of world economic recovery? Should productive capacity be removed for the benefit of the US or its allies, or for the sake of industrial disarmament? Do the objectives of military security and economic recovery conflict?

(f) Shall the former enemy leaders be punished? If so, for what acts, by what tribunals, and how far down the line? Should military government purge public life of all formerly prominent citizens, or of all members of a certain political party or parties? Should the initiative be left to the local population? How shall the competing claims of retribution (or deterrence) and administrative efficiency — of social justice and social order — be resolved, and by whom?

It is not to be supposed that policy on these and other questions, once developed, can be followed uncritically without modification in the light of changing circumstances; but both our failures and our successes in Germany suggest that it is better to have long-range policies, however imperfect and mutable, than to let policy emerge as the sum of our instinctive responses and our defaults, modified only by the imprint of an insufficiently identified center of policy interest.

It should be noted that questions like those listed above are questions of foreign policy and fall within the traditional responsibility of the Department of State. Other agencies have to play some role in the process of formation of policy where their interests are concerned, however, and the role of the Army will and should be considerable. The military must take the responsibility for executing many of whatever policies are ultimately adopted; the military must obtain the appropriations for carrying out its duties; the

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military probably will have the largest and best-equipped body of observers on the scene of the occupied area, supplying indispensable intelligence to the makers of policy; and the men in the field always "make" some policy, precisely because they are the men in the field, in closest contact with the problems, mediating between Washington and the occupied area. These circumstances, at the same time, should not induce the military to usurp the ultimate responsibility for policy that rests with the State Department and the President.

3. In planning for future military government operations, the Army should also be prepared to take the initiative in seeking clear assignments of responsibility for the formulation of military government policy and organizational lines that firmly establish the authority and responsibility for decision making in this field. In particular, the establishment of some central policy making body that will coordinate the policy interests of all the governmental agencies concerned should be sought.

4. Subject to certain provisos, mandatory directives issued to the theater from government level should express long-range objectives and the various essentials of interim policy in only as much detail as is needed for guidance, leaving methods and procedures to the judgment of the theater commander. The provisos are:

(a) There must be sufficiently frequent and frank communication between Washington and the theater so that Washington can predict with fair accuracy the way in which the theater will carry out a general directive.

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(b) There must be sufficient staff support in the theater so that the theater commander has at his disposal most of the skills and information needed for the formation of detailed sub-policies.

(c) Information and advice must be available from Washington upon request made by the theater, e.g., technical information; relevant diplomatic information; and advice on the trend of policy thinking in other departments, in Congress, and in the White House. When the sources of such information are outside the military establishment, they should be freely available at staff level to the military.

5. Channels for communication between Washington and the theater of military government should be kept open in both directions before, during, and after the formation of policy in order to insure the two-way exchange of information, policy suggestion, reports, criticism, etc. essential to the development of effective policy. Too much communication is a less harmful error than too little; and an excess tends to be self-correcting, while a deficiency tends to be self-perpetuating.

Routine communication should be supplemented from time to time by personal contact. The particular means chosen is not of great importance; it may be by regular or irregular visits home, by special executive missions from Washington, by joint participation at international conferences on problems related to military government, or by other means.

6. The relationship between the military governor and the Department of State should be subjected to further analysis and reflection. Thought should

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be given to the suggestion that the military governor combine some of the attributes of a military commander and an ambassador, reporting to a group like the National Security Council, enjoying the right of direct access to the President, and assisted by technical attaches from various departments of the government.

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